

# SHIBAO

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# STEERING THE FUTURE

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# 2012

ANNUAL REPORT



**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: 1057

\* For identification purposes only

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**Important Notice:**

This annual report is prepared in both Chinese and English. In the event that different interpretation occurs, the Chinese version shall prevail.

# CORPORATE INFORMATION

Legal Name	Zhejiang Shibao Company Limited* 浙江世寶股份有限公司
Board of Directors	<b>Executive Directors</b> Mr. Zhang Shi Quan (張世權) <i>(Chairman and General Manager)</i> Mr. Zhang Bao Yi (張寶義) Mr. Tang Hao Han (湯浩瀚) Mr. Zhu Jie Rong (朱頡榕) Ms. Zhang Lan Jun (張蘭君) <b>Non-executive Directors</b> Mr. Zhang Shi Zhong (張世忠) Mr. Lou Run Zheng (樓潤正) <b>Independent Non-executive Directors</b> Mr. Zhao Chun Zhi (趙春智) Mr. Chau Kam Wing, Donald (周錦榮) Mr. Zhang Hong Zhi (張洪智) Mr. Li Zi Biao (李自標) Mr. Chen Guo Feng (陳國峰) <i>(Resigned on 10 February 2012)</i>
Supervisors	Mr. Du Min (杜敏) Mr. Yang Di Shan (楊迪山) Mr. Wu Lang Ping (吳琅平) Mr. Shen Song Sheng (沈松生) Mr. Wang Kui Quan (王奎泉)
Senior Management	Mr. Yu Zhong Chao (虞忠潮) Ms. Liu Xiao Ping (劉曉平)
Audit Committee	Mr. Chau Kam Wing, Donald (周錦榮) <i>(Chairman)</i> Mr. Zhang Shi Zhong (張世忠) Mr. Zhang Hong Zhi (張洪智) Mr. Chen Guo Feng (陳國峰) <i>(Resigned on 10 February 2012)</i>
Remuneration Committee	Mr. Chau Kam Wing, Donald (周錦榮) <i>(Chairman)</i> Mr. Zhang Shi Zhong (張世忠) Mr. Zhang Hong Zhi (張洪智) Mr. Chen Guo Feng (陳國峰) <i>(Resigned on 10 February 2012)</i>

\* for identification purposes only

# CORPORATE INFORMATION

Nomination Committee	Mr. Chau Kam Wing, Donald (周錦榮) ( <i>Chairman</i> ) Mr. Zhao Chun Zhi (趙春智) Ms. Zhang Lan Jun (張蘭君)
Investment and Strategy Committee	Mr. Zhang Shi Quan (張世權) ( <i>Chairman</i> ) Mr. Zhang Bao Yi (張寶義) Mr. Tang Hao Han (湯浩瀚)
Compliance Officer	Mr. Zhu Jie Rong (朱頡榕)
Secretary to the Board	Ms. Liu Xiao Ping (劉曉平)
Company Secretary	Ms. Huen Lai Chun (禰麗珍)
Authorised Representatives	Mr. Zhu Jie Rong (朱頡榕) Ms. Huen Lai Chun (禰麗珍)
Registered Office	No. 1, Shuanglin Road Fotang Town Yiwu Zhejiang Province China (Post code: 322002)
Principal Place of Business in Hong Kong	Room 1204 C C Wu Building 302-308 Hennessy Road Wanchai Hong Kong
Legal Advisers	<i>as to PRC law</i> Grandall Legal Group (Shanghai) 45th-46th Floor Nan Zheng Building 580 Nanjing Xilu Jingan District Shanghai China

# CORPORATE INFORMATION

## Auditors

Ernst & Young Hua Ming LLP  
Level 16, Ernst & Young Tower  
Oriental Plaza  
No. 1 East Chang An Ave.  
Dong Cheng District  
Beijing  
China

## Principal Bankers

Agricultural Bank of China  
Yiwu Branch – Fotang Sub-branch  
85 Jianshe Road  
Fotang  
Yiwu  
Zhejiang Province  
China

Industrial and Commercial Bank of China  
Yiwu Branch – Yiwu Sub-branch  
128 Huangyuan Road  
Yiwu  
Zhejiang Province  
China

China CITIC Bank  
Hangzhou Economic and Technology Development Zone Branch  
6th Avenue,  
Hangzhou Economic and Technology Development Zone  
Hangzhou  
Zhejiang Province  
China

China Zheshang Bank  
Hangzhou Yuquan Branch  
52 Qiushi Road  
Hangzhou  
Zhejiang Province  
China

## CORPORATE INFORMATION

China Construction Bank  
Hangzhou Branch – Qiutao Sub-branch  
5 Qingchun East Road  
Jiangan District  
Hangzhou  
Zhejiang Province  
China

Industrial and Commercial Bank of China  
Siping Branch – Zhongyang Dong Lu Sub-branch  
1 Tiedong District  
Siping  
Jilin Province  
China

Industrial and Commercial Bank of China  
Hangzhou Branch – Jingkai Sub-branch  
No. 5, 6th Avenue  
Hangzhou Economic and Technology Development Zone  
Hangzhou  
Zhejiang Province  
China

China Construction Bank  
Siping Branch – Tiedong Sub-branch  
No. 1155, Zhongyang Dong Lu, Tiedong District  
Siping  
Jilin Province  
China

Industrial Bank Co., Ltd.  
Hangzhou Chengxi Branch  
No. 102, West Wen Yi Road  
Hangzhou  
Zhejiang Province  
China

Industrial and Commercial Bank of China  
Beijing Branch – Zi Zhu Yuan Road Sub-branch  
No. 10, Zhong Guan Cun South Road Jia  
Hai Dian District  
Beijing  
China

# CORPORATE INFORMATION

	<p>Industrial and Commercial Bank of China (Asia) Limited Hong Kong Headquarters 33rd Floor ICBC Tower 3 Garden Road Central Hong Kong</p>
<b>Hong Kong H Share registrar and transfer office</b>	<p>Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong</p>
<b>Contact information</b>	<p><b>Corporate communication/Investor relations</b> Ms. Liu Xiao Ping (劉曉平), Secretary to the Board No.6, 17th Avenue Hangzhou Economic and Technology Development Zone Hangzhou Zhejiang Province China (Post code: 310018) Tel.: +86 571 2802 5692 Fax: +86 571 2802 5691 Email: ir@zjshibao.com</p> <p><b>Company secretary affairs</b> Ms. Huen Lai Chun (禰麗珍), Company Secretary Room 1204 C C Wu Building 302-308 Hennessy Road Wanchai Hong Kong Tel.: +852 3104 8118 Fax: +852 3104 8119 Email: ir@zjshibao.com</p>
<b>Place of Listing</b>	<p>A Shares: Shenzhen Stock Exchange Stock Name: Zhejiang Shibao      Stock Code: 002703 H Shares: The Stock Exchange of Hong Kong Limited Stock Name: Zhejiang Shibao      Stock Code: 1057</p>
<b>Website</b>	<p><a href="http://www.zjshibao.com">www.zjshibao.com</a></p>

## CORPORATE PROFILE

The Company is a joint stock limited company registered in the PRC on 12 July 2004 under the Company Law of the PRC. Its ultimate holding company is Zhejiang Shibao Holding, a limited liability company established in the PRC. The Company's H Shares were listed on the Growth Enterprise Market of Hong Kong Stock Exchange on 16 May 2006 and were transfer listed on the Main Board of Hong Kong Stock Exchange on 9 March 2011, and its stock code is 1057. The Company's A Shares were listed on Shenzhen Stock Exchange on 2 November 2012, and its stock code is 002703.

The Group is a leading OEM supplier of automotive steering system in the PRC.

The Group has committed itself to the research and development of automotive steering technologies and products and mainly engaged in the development, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The Group has accumulated extensive industry experience in the PRC. The Group is one of the early movers in the development of hydraulic power steering gears in the PRC, and also the early domestic enterprise having built the capacity of independent mechanical-electrical integration technologies and volume production of electric power steering (EPS) system.

Mr. Zhang Shi Quan, the founder, Chairman and General Manager of the Group, entered into the manufacture of automotive steering gear products in 1984, and established Zhejiang Shibao Steering Gear Co., Ltd., the predecessor of the Company in Yiwu, Zhejiang Province in 1993, which was reorganized into a joint stock company in 2004.

The Group has established manufacturing and research bases in Hangzhou and Yiwu, Zhejiang Province, Siping, Jilin Province, Wuhu, Anhui Province and Beijing respectively, and supply four types of steering products to large automakers: power recirculating ball steering gear for use in light, medium and heavy duty trucks and buses, power rack-and-pinion steering gear and steering knuckle for use in passenger cars and EPS system for use in energy-saving and new energy vehicles (with own intellectual property rights).

The Group has a large and reputable customer base of automakers, including FAW Group, Dongfeng Group, JAC, Kinglong United Automobile Industry (Suzhou) Co., Ltd., Beiqi Foton Motor Co., Ltd., Chery Auto, Geely Automobile Holdings Limited, Iran Saipa Automotive Group. The Group also is the core supplier of FAW Car and the qualified supplier of FAW-VW Automobile Co., Ltd.. In order to develop aftermarket sales, the Group has also set up aftermarket sales network that covers major areas in the PRC.

The Group has rich OEM experiences, strong R&D and design capacity and adopted lean production system. By continuously investing in research and development, the Group is now capable of joint-design with the local and international vehicle design team. The Group is further exploring opportunities with leading automakers in modular supply and "Just-In-Time" delivery. The Group's business objective is to be an outstanding steering system supplier as well as reliable and long-term partner of China and International leading automakers.



## FIVE YEARS FINANCIAL SUMMARY

The audited results, assets and liabilities of the Group for the past five years ended 31 December 2012 are set out below. The relevant information were prepared on a consolidated basis and based on PRC Accounting Standards for Business Enterprises for 2012, 2011 and 2010, and International Accounting Standards for 2009 and 2008.

### RESULTS

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB0,000	RMB0,000	RM0,000	RMB0,000	RMB0,000
Revenue	54,838	62,592	54,594	36,352	25,622
Total profit	7,950	12,589	11,866	7,664	4,864
Net profit	6,889	11,065	10,434	6,716	4,150
Minority interests	(323)	(222)	94	80	63
Net profits attributable to					
equity holders of the parent	7,213	11,287	10,340	6,635	4,088
Basic earnings per share (RMB)	0.27	0.43	0.39	0.2526	0.1556

### ASSETS AND LIABILITIES

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB0,000	RMB0,000	RM0,000	RMB0,000	RMB0,000
Non-current assets	54,257	52,709	40,778	30,842	25,244
Current assets	63,967	52,426	40,324	29,178	26,159
Current liabilities	40,329	33,145	20,751	12,430	9,029
Net current assets	23,638	19,281	19,573	16,748	17,130
Equity attributable to					
equity holders of the parent	71,694	64,137	55,205	46,641	41,319
Total liabilities and					
shareholders' equity	118,224	105,135	81,102	47,050	41,708

## CHAIRMAN'S STATEMENT

I would like to present on behalf of the Board the report of the audited results of the Group for the year ended 31 December 2012.

The Group has committed itself to the research and development of automotive steering technologies and products and mainly engaged in the development, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The Group is also the early domestic enterprise having built the capacity of independent mechanical-electrical integration technologies and volume production of electric power steering (EPS) system.

For the year ended 31 December 2012, the Group recorded a revenue of RMB548,384,676.25, representing a decrease of 12.39% as compared with 2011. The decrease was mainly due to a decrease in the sales of steering knuckles and hydraulic power re-circulating ball steering gears.

The gross profit margin of the Group during the year under review was 30.74% (2011: 35.47%). The decrease in the gross profit margin was mainly due to a decrease in the sales of hydraulic power re-circulating ball steering gears for medium to heavy-duty trucks and the export business of hydraulic power rack-and-pinion steering gears to Iran, resulted in a decrease of the Group's gross profit margin.

For the year ended 31 December 2012, net profit of the Group was RMB68,894,979.75 (2011: RMB110,647,997.28), representing a decrease of 37.73% as compared with 2011. Net profit attributable to equity holders of the parent was RMB72,127,189.72 (2011: RMB112,872,143.11), representing a decrease of 36.10% as compared with 2011.

During the year under review, as a result of economic downturn and growth of automobile industry slowed down, the Group's operating results represented a decrease as compared with 2011. During the year under review, revenue generated from the Group's key customers decreased. The revenue from top five customers of the Group accounted for 59.40% of the total revenue.

During the year under review, the Company's A Shares of 15,000,000 shares were listed on the Shenzhen Stock Exchange by the way of initial public offering, which brought the following benefits to the Company: 1) increased the Group's reputation in China mainland market; 2) established a flexible mechanism for staff incentive and recruitment; and 3) built a diversified fund raising sources for the Company.

# CHAIRMAN'S STATEMENT

## OUTLOOK

The strategy of the Company is to commit itself to the research and development and manufacturing of automotive steering technologies and products, and provide high-tech and high-quality steering products to automakers. The Company is also committed itself to the research and development of light-weight and energy-saving technologies for automotive steerings, and to be a leading brand of electric power steering (EPS) system in the PRC. The Company is also developing the global market through acquisition, merging and export trading.

In 2013, the Company has planned to further expand hydraulic power steering gear businesses by increasing the volume of existing projects and acquiring new projects, and to increase profit by increasing the production and sales volume of electric power steering (EPS) system. The Company will also further increase the capacity of automotive components precious casting and machining, therefore to not only meet the needs for the Group's internal use, but will also make external businesses.

**Zhang Shi Quan**

*Chairman and General Manager*

Hangzhou, Zhejiang, the PRC

22 March 2013

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

### AUTOMOBILE MANUFACTURE AND SALES

In 2012, as a result of economic downturn, the growth of automobile industry slowed down. In 2012, production and sales volume of China automobile industry was 19,271,800 units and 19,306,400 units respectively, representing an increase of 4.6% and 4.3% as compared with 2011. Among these, production and sales of passenger cars were 15,523,700 units and 15,495,200 units respectively, representing an increase of 7.2% and 7.1% as compared with 2011; production and sales of commercial vehicles were 3,748,100 units and 3,811,200 units respectively, representing a decrease of 4.71% and 5.49% as compared with 2011. In 2012, sales of China-brand passenger cars was 6,485,000 units, representing an increase of 6.1%, which accounted for 41.9% of total sales of passenger cars, representing a decrease of 0.4%. In 2012, the increase of China-brand passenger cars as a whole was mainly contributed by the fast increase of the export. If taken out the export, the sales volume of China-brand passenger cars in local market was only increased by 3.9%. Among commercial vehicles, production and sales volume of buses was 506,400 units and 507,400 units respectively, representing an increase of 4.9% and 4% as compared with 2011; production and sales volume of trucks was 3,057,200 units and 3,113,100 units respectively, representing a decrease of 4.7% and 5.3% as compared with 2011; production and sales volume of tractor trucks was 184,500 units and 190,600 units respectively, representing a decrease of 24.5% and 26% as compared with 2011. The downturn of trucks market was mainly due to a decrease in production and sales of medium to heavy-duty trucks.

In 2012, top ten automaker groups in China produced 16,862,800 units of automobiles, representing 87.3% of the production of automobile industry, an increase of 0.7% as compared to last year, and an increase in industry concentration.

### TREND OF THE CHINA AUTOMOTIVE INDUSTRY

It is becoming a global trend that the automotive companies are separating from the automakers and being independently. Almost all of the global well-known automotive companies have set up joint-venture companies or wholly-owned companies in the PRC. Meanwhile, a large number of high-tech, profitable and large scaled China automotive companies are growing up. As the "global sourcing" and "localization" strategies being more and more preferable by the global automobile industry and the multinational automakers, the needs for China automotive components is increasing largely. China automotive industry is facing new opportunities and challenges.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### OPERATING RESULTS

For the year ended 31 December 2012, the Group recorded a revenue of RMB548,384,676.25, representing a decrease of 12.39% as compared with 2011. Net profit attributable to the equity holders of the Parent was RMB72,127,189.72, representing a decrease of 36.10% as compared with 2011.

The decrease of the Group's revenue was mainly due to a decrease in the sales of steering knuckles and hydraulic power re-circulating ball steering gears.

During the year under review, the Group's entire gross profit decreased by 24.07% as compared with 2011. The gross profit margin of the Group was 30.74% (2011: 35.47%). The decrease in the gross profit margin was mainly due to a decrease in the sales of hydraulic power re-circulating ball steering gears for medium to heavy-duty trucks and the export business of hydraulic power rack-and-pinion steering gears to Iran, resulted in a decrease of the Group's gross profit margin.

During the year under review, the Group's selling expenses decreased by RMB2,718,249.96 as compared with 2011. However, the ratio of selling expenses to revenue increased as compared with 2011. Decrease in selling expenses was mainly due to a decrease in sales resulted in a decrease in salesperson's commission, transportation expenses and the provision of warranty expenses.

During the year under review, the Group's general and administrative expenses increased by RMB7,435,175.45 as compared with 2011. The ratio of general and administrative expenses to revenue also increased as compared with 2011. Increase in general and administrative expenses was mainly due to an increase in the production capacity of the Group's subsidiaries i.e. Hangzhou New Shibao and Jilin Shibao, resulted in an increase of administrative staff costs.

During the year under review, the Group's financial expenses increased by RMB2,874,489.09 as compared with 2011. Increase in financial expenses was mainly due to an increase in bank borrowings during the year under review, used for production expansion of the Group.

In view of the above, for the year ended 31 December 2012, the Group has a net profit of RMB68,894,979.75, representing a decrease of 37.73% as compared with RMB110,647,997.28 in 2011.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKETING AND NEW PRODUCTS

The Group secured eleven new development projects during the year under review and held sixteen development projects in total as at the end of the year under review. During the year under review, the Group has twelve development projects started volume production, among which the Group's electric power steering (EPS) system started volume production for Tianjin FAW XIALI Automobile Co., Ltd..

## PRODUCTION FACILITIES

During the year under review, the second production line for precious casting has been ready for production and the third production line for precious casting has arrived for installation and testing in Jilin Shibao.

During the year under review, Hangzhou Shibao has added relevant machining facilities to solve the bottleneck of the production capacity of several machining processes.

## RESEARCH AND DEVELOPMENT

During the year under review, the Group's research and development expenses was RMB16,292,793.29. The ratio of research and development expenses to the Group's audited net assets and revenue was 2.22% and 2.97% respectively. During the year under review, the Group has two applications been issued certificate of patent by the State Intellectual Property Office, among which one application was patent of invention. As at the date of this report, the Group holds twenty-seven patents and two software copy-rights.

The Group's research and development expenses was used in the research and development of automotive steering related new technologies and the implementation of development projects of automotive steering assembly products. Leading research and development capacity is one of the core competencies of the Group, and helps the Group to acquire new businesses and positions the Group to a leading edge of the industry. The skid pad built by the Group in Hangzhou was not only a part of the Group's project of building a state-level automotive steering R&D center, but also was the first skid pad in automotive steering industry in PRC.

During the year under review, the Group has been awarded the "Supplier of the Year" by FAW Group, the "Special Contribution Award" by FAW-CAR, the "Supplier of the Year" by DFM Liuzhou Automobile Company and the "Award of Excellent Quality" and "Supplier of the Year" by JAC.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### REVENUE

For the year ended 31 December 2012, the Group recorded a revenue of RMB548,384,676.25, representing a decrease of 12.39% as compared with 2011. The decrease was mainly due to a decrease in the sales of steering knuckles and hydraulic power re-circulating ball steering gears.

### GROSS PROFIT AND GROSS PROFIT MARGIN

During the year under review, the Group's gross profit was decreased by 24.07% as compared with 2011. The gross profit margin of the Group during the year under review was 30.74% (2011: 35.47%). The decrease in the gross profit margin was mainly due to a decrease in the sales of hydraulic power re-circulating ball steering gears for medium to heavy-duty trucks and the export business of hydraulic power rack-and-pinion steering gears to Iran, resulted in a decrease of the Group's gross profit margin.

### NON-OPERATING INCOME

During the year under review, the Group's non-operating income was RMB20,899,618.87, increased by RMB15,493,568.85 as compared with 2011. The Group's non-operating income mainly related to a disposal of a property by Siping Steering resulted in gains from disposal of non-current assets of RMB9,233,699.03 and the receipt of government grants of RMB9,950,660.37.

### SELLING EXPENSES

During the year under review, the Group's selling expenses decreased by RMB2,718,249.96 as compared with 2011. However, the ratio of selling expenses to revenue increased as compared with 2011. Decrease in selling expenses was mainly due to a decrease in sales resulted in a decrease in salesperson's commission, transportation expenses and the provision of warranty expenses.

### GENERAL AND ADMINISTRATIVE EXPENSES

During the year under review, the Group's general and administrative expenses increased by RMB7,435,175.45 as compared with 2011. The ratio of general and administrative expenses to revenue also increased as compared with 2011. Increase in general and administrative expenses was mainly due to an increase in the production capacity of the Group's subsidiaries i.e. Hangzhou New Shibao and Jilin Shibao, resulted in an increase of administrative staff costs.

### FINANCIAL EXPENSES

During the year under review, the Group's financial expenses increased by RMB2,874,489.09 as compared with 2011. Increase in financial expenses was mainly due to an increase in bank borrowings during the year under review, used for production expansion of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## RESEARCH AND DEVELOPMENT EXPENSES

During the reporting period, the Group's research and development expenses were RMB16,292,793.29. The ratio of research and development expenses to the Group's audited net assets and revenue was 2.22% and 2.97% respectively. The Group's research and development expenses was used in the research and development of automotive steering related new technologies and the implementation of development projects of automotive steering assembly products. Leading research and development capacity is one of the core competencies of the Group, and helps the Group to acquire new businesses and positions the Group to a leading edge of the industry.

## NET PROFIT AND NET PROFIT MARGIN

For the year ended 31 December 2012, the Group's net profit was RMB68,894,979.75, representing a decrease of 37.73% as compared with last year, net profit margin was 12.56% (2011: 17.68%).

## LIQUIDITY AND FINANCIAL RESOURCES

### LIQUIDITY RATIOS

As at 31 December 2012, the Group had cash on hand and at bank of RMB78,543,676.91 (2011: RMB43,234,111.34), including restricted cash on hand and at bank of RMB1,770,509.77 (2011: RMB2,522,130.61). The restricted cash on hand and at bank of the Group with limited ownership right refers to the deposits for issuance of bank bills and letters of credit.

As at 31 December 2012, the current ratio of the Group was 1.59 (2011: 1.58), the quick ratio was 1.24 (2011: 1.21).

Net current assets as at 31 December 2012 was RMB236,381,060.33 (2011: RMB192,811,168.15).

As at 31 December 2012, non-current liabilities was RMB45,120,376.56 (2011: RMB57,920,986.95), decreased by RMB12,800,610.39 when compared with last year mainly as a result of a decrease in long-term bank borrowings.

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days, extending up to 180 days for major customers. Overdue balances are reviewed regularly by senior management.

Taking into account the Group's internally generated funds and available banking facilities, the Directors are of the opinion that the Group has sufficient working capital for its current needs.



# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL STRUCTURE

The Group's gearing ratio as at 31 December 2012 was 37.93% (2011: 37.03%). The calculation of gearing ratio is to divide total liabilities by the total assets. Total liabilities is the sum of liabilities bearing by the Group, includes current-liabilities and long-term liabilities. Total assets is the sum of assets holding by the Group, includes current assets and non-current assets.

As at 31 December 2012, the amount of total loans and borrowings was RMB220,920,400.00 (2011: RMB157,100,232.00), in which RMB208,500,000.00 (2011: RMB144,079,832.00) were bank loans. Total loans and borrowings increased by RMB63,820,168.00 when compared with last year, the increased loans and borrowings were mainly used to expand the production capacity of the Group. Among which, loans and borrowings of short-term and due within one year amounted to RMB205,290,400.00 (2011: RMB127,079,832.00), representing a share of 92.93% (2011: 80.89%) in total loans and borrowings. Loans and borrowings at fixed interest rates were RMB53,620,400.00.

The Group's cash and cash equivalents, and loans and borrowings were mainly denominated in Renminbi.

## PLEDGE OF ASSETS

As at 31 December 2012, the restricted cash on hand and at bank of the Group was RMB1,770,509.77 (2011: RMB2,522,130.61) which refers to the deposits for issuance of bank bills and letters of credit.

Save as disclosed above, the Group did not have any other pledges on its assets.

## MATERIAL ACQUISITIONS AND DISPOSALS

For the year of 2012, the Group did not have any material acquisition and disposal concerning subsidiaries and associated companies.

## OTHER MATTERS

### ACQUISITION OF AND INCREASE IN EQUITY IN WUHU STERLING

On 30 January 2013, the Company entered into the Equity Transfer Contract with Wuhu Chery Technology Co., Ltd. ("Chery Technology"), the existing shareholder of Wuhu Sterling, pursuant to which Chery Technology transferred 6% of equity interests held by it in Wuhu Sterling to the Company at a consideration of RMB3,000,000 ("Acquisition"). At the same time, the Company increased its capital contribution to Wuhu Sterling and entered into the Capital Contribution Agreement with other shareholders of Wuhu Sterling. The Company increased its investment by RMB7,000,000, of which RMB2,800,000 was contributed as registered capital and RMB4,200,000 was contributed as capital surplus ("Capital Contribution", and collectively referred to as the "Transactions" together with the aforesaid Acquisition). The Company paid RMB10,000,000 in aggregate as the consideration for the Transactions. The Acquisition is subject to the approval being obtained from the competent state assets administration authorities of Chery Technology, and being handled in accordance with the procedures stipulated in the relevant laws and regulations regarding to the transfer of state-owned assets. Upon the completion of the Transactions, equity interests held by the Company will be increased

## MANAGEMENT DISCUSSION AND ANALYSIS

from 46% to 57.89% and Wuhu Sterling will be included into the consolidated accounts of the Company. Through the Transactions, the Company will obtain controlling interests in Wuhu Sterling. As such, Wuhu Sterling will be included into the overall development plan of the Company. At the same time, leading technology and techniques in the field of steering gear that the Company possesses will help Wuhu Sterling to obtain the exclusive supply qualification of the vehicle assembly base of Chery Auto in the north western PRC, as well as to create opportunities on business development of steering gear for mid-high end vehicles of joint venture projects entered into by Chery Auto with Jaguar Land Rover and Israeli corporations etc.. As such, the production capacity and market share of the Company will further expand. As the applicable percentage ratios in respect of the Acquisition and the Capital Contribution are more than 5% but less than 25%, the Transactions constitute discloseable transactions of the Company. Details of the Transactions are set out in the Company's announcement dated 30 January 2013.

### FOREIGN CURRENCY EXPOSURE

For the year ended 31 December 2012, both the sales and purchases of the Group were principally denominated in Renminbi. The Group was not subject to significant exposure in foreign currency risk. No hedge arrangement has been entered into by the Group.

### CAPITAL COMMITMENTS

Apart from the commitments set out on page 159 in the annual report, the Group has no other material capital commitments as at 31 December 2012.

### CONTINGENT LIABILITIES

The Group has no material contingent liabilities as at 31 December 2012.

### EMPLOYEE INFORMATION AND REMUNERATION POLICY

The Group had a total of 1,511 employees as at 31 December 2012. For the year ended 31 December 2012, total salaries and welfares costs of the employees amounted to RMB71,793,332.38.

The Group provided substantial remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

Mr. Zhang Shi Quan (張世權), aged 63, is the Chairman and General Manager of the Company. He is a senior economist. Since 12 June 2004, Mr. Zhang has been appointed as the Chairman and General Manager of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. Mr. Zhang is also a director of Zhejiang Shibao Holding; an executive director of Hangzhou Shibao; the chairman of Siping Steering, Wuhu Sterling and Changchun Shi; and a director of Jilin Shibao, Hangzhou New Shibao, Beijing Autonics and Anhui Changshan. Mr. Zhang was awarded the title of "China Outstanding Private Entrepreneurs" (中國優秀民營企業家). He was also awarded "Top Ten Distinguished Persons for the Second Year for China's Industrial Economy" (第二屆中國工業經濟年度十大傑出人物) granted by the Office for Election of Distinguished Persons for China's Industrial Economy (中國工業經濟年度人物評選辦公室) in 2006. Mr. Zhang Shi Quan is the father of Mr. Zhang Bao Yi and Ms. Zhang Lan Jun; father-in-law of Mr. Tang Hao Han; and elder brother of Mr. Zhang Shi Zhong, all are Directors of the Company.

As at 31 December 2012, Mr. Zhang Shi Quan holds 40% interest in the registered capital of Zhejiang Shibao Holding, the ultimate holding company of the Company, which in turn holds 165,387,223 A Shares of the Company, representing 86.62% of the A Shares in issue and 59.57% of the total issued share capital of the Company. In addition, Mr. Zhang Shi Quan also holds 10,556,632 A Shares of the Company by himself, representing 5.53% of the A Shares in issue and 3.80% of the total issued share capital of the Company.

Mr. Zhang Bao Yi (張寶義), aged 40, is a vice Chairman and deputy general manager of the Company. He has a bachelor's degree. Since 12 June 2004, he has been appointed as vice Chairman and deputy general manager of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. He is also the chairman of Hangzhou New Shibao and Beijing Autonics; a director of Wuhu Sterling, Changchun Shili and Anhui Changshan; the general manager of Hangzhou Shibao. He was granted the title of "Labour Model" of Yiwu City (義烏市勞動模範) in 2004. Mr. Zhang Bao Yi is the son of Mr. Zhang Shi Quan.

As at 31 December 2012, Mr. Zhang Bao Yi holds 20% interest in the registered capital of Zhejiang Shibao Holding, the ultimate holding company of the Company.

Mr. Tang Hao Han (湯浩瀚), aged 45, is a vice Chairman and deputy general manager of the Company. He has a doctor's degree and a qualification of senior professional manager of China. Since 12 June 2004, he has been appointed as vice Chairman and deputy general manager of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. Mr. Tang is also the chairman of Jilin Shibao; a director and the general manager of Siping Steering; a director of Changchun Shili and Anhui Changshan. Mr. Tang was awarded the "Outstanding Entrepreneur of Jilin Province", "Labour Model of Jilin Province", "National Outstanding Youth Entrepreneur Leader", "Outstanding Entrepreneur of National Privately-Owned Technological Enterprises" and "National Labour Day Medal". Mr. Tang Hao Han is the son-in-law of Mr. Zhang Shi Quan.

As at 31 December 2012, Mr. Tang Hao Han holds 20% interest in the registered capital of Zhejiang Shibao Holding, the ultimate holding company of the Company.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhu Jie Rong (朱頡榕), aged 65, is a Director of the Company. He has a college degree and is an engineer. Since 12 June 2004, he has been appointed as a Director of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. Mr. Zhu is also a supervisor of Zhejiang Shibao Holding. From 12 June 2004 to 31 December 2012, Mr. Zhu was a deputy general manager of the Company. Mr. Zhu Jie Rong was a manager of technical department of steering transmission company of DMF (中國第二汽車廠), a deputy plant manager of technical and a deputy chief engineer of automotive steering plant of Zhejiang Wanda Group.

As at 31 December 2012, Mr. Zhu Jie Rong is not interested in any Shares of the Company within the meaning of Part XV of the SFO.

Ms. Zhang Lan Jun (張蘭君), aged 38, is a Director and the financial officer of the Company. She has a master's degree. Since 12 June 2004, she has been appointed as a Director and the financial officer of the Company. Her current term was effective from 25 May 2012 and is valid till 24 May 2015. She is also the financial officer of Hangzhou Shibao and a director of Anhui Changshan. Ms. Zhang has over 10 years of experience in finance and accounting. Ms. Zhang Lan Jun is the daughter of Mr. Zhang Shi Quan.

As at 31 December 2012, Ms. Zhang Lan Jun holds 15% interest in the registered capital of Zhejiang Shibao Holding, the ultimate holding company of the Company.

### NON-EXECUTIVE DIRECTORS

Mr. Zhang Shi Zhong (張世忠), aged 52, is a Director of the Company. Since 12 June 2004, he has been appointed as a Director of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. He is also the chairman of Zhejiang Shibao Holding and Anhui Changshan. Mr. Zhang Shi Zhong is the younger brother of Mr. Zhang Shi Quan.

As at 31 December 2012, Mr. Zhang Shi Zhong holds 5% interest in the registered capital of Zhejiang Shibao Holding, the ultimate holding company of the Company.

Mr. Lou Run Zheng (樓潤正), aged 49, is a Director of the Company. He was graduated from Open University of Hong Kong and has a master's degree. Since 5 June 2009, he has been appointed as a Director of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. Mr. Lou is the general manager of Zhejiang Yuan Zheng Hotel Management Co. Ltd.. Mr. Lou was a president assistant and vice president Zhejiang University Enterprises Group successively from 2006 to 2009.

As at 31 December 2012, Mr. Lou Run Zheng is not interested in any Shares of the Company within the meaning of Part XV of the SFO.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Kam Wing, Donald (周錦榮), aged 50, is an independent Director of the Company. He is a graduate of University of San Francisco, USA and has a master's degree. Since 4 November 2009, he has been appointed as an independent Director of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. Mr. Chau Kam Wing, Donald has over 20 years of experience in corporate finance. He is a Fellow of the Association of Chartered Certified Accountants and a practising member of Hong Kong Institute of Certified Public Accountants. He is now practising as a Certified Public Accountant in Hong Kong and is a council member of the Society of Chinese Accountants & Auditors in Hong Kong. He is an independent director of China Water Affairs Group Limited and Carpenter Tan Holdings Limited (both are listed on the Main Board of Hong Kong Stock Exchange); and an independent director of Eco-Tek Holdings Limited (a company listed on the Growth Enterprise Market of Hong Kong Stock Exchange) and a finance director of Winox Holdings Limited (a company listed on the Main Board of Hong Kong Stock Exchange).

As at 31 December 2012, Mr. Chau Kam Wing, Donald is not interested in any Shares of the Company within the meaning of Part XV of the SFO.

Mr. Zhao Chun Zhi (趙春智), aged 67, is an independent Director of the Company. He is a senior economist. Since 5 June 2009, he has been appointed as an independent Director of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. Mr. Zhao was a manager and an assistant to general manager of FAW Forging Factory, a deputy general manager of FAW steering gear factory and the general manager of FAW Liao-Beng Factory (一汽遼泵廠) successively and retired in 2006.

As at 31 December 2012, Mr. Zhao Chun Zhi is not interested in any Shares of the Company within the meaning of Part XV of the SFO.

Mr. Zhang Hong Zhi (張洪智), aged 47, is an independent Director of the Company. He has a bachelor's degree and is an economist. Since 20 June 2011, he has been appointed as an independent Director of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. He is also a vice president of First Capital Fund Management Co., Ltd. (首控基金管理有限公司) and a supervisor of Hunan Honghui Technology Co., Ltd. (湖南鴻輝科技有限公司). He has over 20 years of experience in areas of banking, securities and investment. He was a manager of Bank of China, Minsheng Securities and Wuzhou Securities successively. From April 2007 to December 2009, he was the chief representative of Beijing Office of Henan Hui Cheng Investment Co., Ltd. (河南匯誠投資有限公司). From January 2010 to December 2012, he was a vice general manager of Henan Nanyang Cijan Auto Shock Absorber Co., Ltd. (河南南陽浙減汽車減振器有限公司).

As at 31 December 2012, Mr. Zhang Hong Zhi is not interested in any Shares of the Company within the meaning of Part XV of the SFO.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Li Zi Biao (李自標), aged 67, is an independent Director of the Company. He is a professor grade senior engineer. Since 10 February 2012, he has been appointed as an independent Director of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. He was a vice section chief (副科長) and a vice chief engineer (副總工程師) in China Nanjing Automobile (Group) Corporation Steering Gear Plant (南京汽車集團公司轉向器廠) and retired in 2008. Since 1984, he has been a member and deputy director of the Association of Steering Technology under the Society of Automobile Engineers of China (中國汽車工程協會轉向技術分會委員及副主任). Since 1991, he has been Secretary-General of Steering Committee of the China Association of Automobile Manufacturers (中國汽車工業協會轉向器委員會秘書長) and Secretary-General of steering-net under CAIN (全國汽車經濟技術資訊網轉向專業網秘書長). Since 2008, he has been Standing Vice Secretary-General of Steering System Technical Sub-Committee of National Automotive Standardisation Technical Committee (全國汽車標準化技術委員會轉向系統技術委員分會常務秘書長).

As at 31 December 2012, Mr. Li Zi Biao is not interested in any Shares of the Company within the meaning of Part XV of the SFO.

### SUPERVISORS

Mr. Du Min (杜敏), aged 58, is the chairman of the Supervisory Committee of the Company. He has a bachelor's degree. Since 1 June 2007, he has been appointed as a Supervisor of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. Since 2002, he was appointed as an assistant to general manager of Siping Steering. Mr. Du was a section chief and a deputy directorial inspector of Bureau of Finance of Siping City.

As at 31 December 2012, Mr. Du Min is not interested in any Shares of the Company within the meaning of Part XV of the SFO.

Mr. Yang Di Shan (楊迪山), aged 75, is a Supervisor of the Company. He has a bachelor's degree and is a senior engineer. Since 5 June 2009, he has been appointed as a Supervisor of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. Mr. Yang is also a director of Zhejiang Shibao Holding. From 2006 to 2009, Mr. Yang Di Shan was a deputy general manager of Beijing Keguan Vehicle Hi-tech Development Co., Ltd..

As at 31 December 2012, Mr. Yang Di Shan is not interested in any Shares of the Company within the meaning of Part XV of the SFO.

Mr. Wu Lang Ping (吳琅平), age 50, is a Supervisor of the Company. He has a college degree. Since 5 June 2009, he has been appointed as a Supervisor of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. Since 2007, he was appointed as a manager of technical and process department of Hangzhou Shibao.

As at 31 December 2012, Mr. Wu Lang Ping is not interested in any Shares of the Company within the meaning of Part XV of the SFO.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Shen Song Sheng (沈松生), aged 76, is a Supervisor of the Company. Since 12 June 2004, he has been appointed as a Supervisor of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. From 1993 to 2009, Mr. Shen was a sales manager of Hangzhou Shibao, and retired in 2009.

As at 31 December 2012, Mr. Shen Song Sheng is not interested in any Shares of the Company within the meaning of Part XV of the SFO.

Mr. Wang Kui Quan (王奎泉), aged 49, is a Supervisor of the Company. He has a master's degree. Since 12 June 2004, he has been appointed as a Supervisor of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015. Since 2000, Mr. Wang is a professor of Zhejiang University of Finance & Economics (浙江財經學院).

As at 31 December 2012, Mr. Wang Kui Quan is not interested in any Shares of the Company within the meaning of Part XV of the SFO.

### SENIOR MANAGEMENT

Mr. Yu Zhong Chao (虞忠潮), aged 48, is a deputy general manager of the Company. He has a bachelor's degree and is an engineer. Mr. Yu Zhong Chao was a designer of automobile layout of DFM Hangzhou Automobile Company, a manager of purchase of DFM Nissan Diesel Automobile Co., Ltd., a vice president of Zhejiang Changxing Auto Leasing Sales Co., Ltd.. Since 2004, he was appointed as a deputy general manager of Hangzhou Shibao. Since 2006, he was appointed as a deputy general manager of the Company.

Ms. Liu Xiao Ping (劉曉平), aged 42, is the Board secretary of the Company. She has a master's degree. Ms. Liu Xiao Ping was a manager of overseas department of Beijing Kerui Group Co., Ltd., a manager of investors' relations department of Xiniao Gas Holding Co., Ltd., the head of general office of Zhejiang Shibao Holding. Since 2006, she was appointed as a director of securities and investment department of the Company. Since May 2011, she was appointed as the Board secretary of the Company.

### COMPANY SECRETARY AS DEFINED BY THE LISTING RULES OF THE HONG KONG STOCK EXCHANGE

Ms. Huen Lai Chun (禰麗珍), aged 47, is the company secretary of the Company. She was appointed as the company secretary and authorised representative of the Company under the Listing Rules of Hong Kong Stock Exchange since May 2009. Ms. Huen Lai Chun is a Fellow of The Association of Chartered Certified Accountants, and an Associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Huen Lai Chun has over 10 years of professional experience in company secretarial work, professional auditing, accounting and financial management.

# REPORT OF THE DIRECTORS

The Board hereby presents the annual report and audited financial statements of the Group for the year ended 31 December 2012.

## PRINCIPAL ACTIVITIES

The Group has committed itself to the research and development of automotive steering technologies and products and mainly engaged in the development, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The activities of its subsidiaries and associated company are set out on page 88 and page 102 of the annual report.

No segmental analysis by operating segment is presented for the year and the reason for this is set out on page 144 of the annual report.

## RESULTS

Results and financial position of the Group for the year ended 31 December 2012 are set out on page 48 to page 51 of the annual report.

## FINANCIAL SUMMARY

Summary of the Group's results, assets and liabilities for the past five financial years are set out on page 8 of the annual report.

## FINAL DIVIDENDS

The Board recommended the payment of a final cash dividend of RMB0.08 per share (inclusive of applicable tax) for the year ended 31 December 2012 ("Final Dividend") with a total dividend amounting to RMB22,212,628.40, and the retention of the remaining profit for the year. The distribution proposal is subject to consideration and approval at the general meeting of the Company.

The Company will issue a separate announcement regarding the record date and date of closure of register of members for the payment of Final Dividend to the holders of H Shares.

Under relevant regulations of China Securities Depository and Clearing Corporation and according to the market practice adopted for dividend distribution for A Shares, the Company will publish a separate announcement in respect of the Final Dividend distribution to the holders of A Shares of the Company after the Company's 2012 annual general meeting to determine the record date and ex-rights date for Final Dividend distribution to the holders of A Shares.

The Company did not pay any interim dividends to shareholders for the year under review.



# REPORT OF THE DIRECTORS

## WITHHOLDING AND PAYMENT OF INCOME TAX ON FINAL DIVIDEND

### Withholding and Payment of Enterprise Income Tax on behalf of Overseas Non-Resident Enterprises Shareholders

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementing rules, the Company will withhold and pay enterprise income tax at the rate of 10% when it distributes Final Dividend to non-resident enterprise holders of H Shares (including any H Shares registered in the name of HKSCC Nominees Limited).

### Withholding and Payment of Individual Income Tax on behalf of Overseas Individual Shareholders

Pursuant to the applicable provisions of the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementing rules as well as the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知》(國稅發[2009]124號)) (the "Tax Notice"), the Company will implement the following arrangements in relation to the withholding and payment of individual income tax on behalf of individual holders of H Shares who are entitled to receive the Final Dividend ("Individual H Shareholders"):

- For Individual H Shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the Individual H Shareholders in the distribution of Final Dividend;
- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of the Individual H Shareholders in the distribution of Final Dividend. If relevant Individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Company will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Notice. Qualified shareholders please submit in time a letter of entrustment and all application materials as required under the Tax Notice to the Company's H share registrar, Computershare Hong Kong Investor Services Limited. The Company will then submit the above documents to competent tax authorities and, after their examination and approval, the Company will assist in refunding the excess amount of tax withheld and paid;
- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of the Individual H Shareholders in the distribution of Final Dividend; and

## REPORT OF THE DIRECTORS

- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the Individual H Shareholders in the distribution of Final Dividend.

Should the holders of H Shares of the Company have any doubt as to the aforesaid arrangements, they are recommended to consult their tax advisors on the relevant tax impact in Mainland China, Hong Kong and other countries (regions) on the possession and disposal of H Shares of the Company.

### SHARE CAPITAL

Details of changes of the Company's share capital during the year are set out in note 30 of the notes to the major items of the consolidated financial statements.

### CONVERTIBLE DEBENTURES

The Group has not granted any convertible debentures, futures, options or other similar rights during the year.

### RESERVES

Reserves of the Group and its changes during the year under review based on PRC Accounting Standards for Business Enterprises are set out in the Consolidated Statement of Changes in Equity, and details of the relevant reserves are set out in notes 31, 32, and 33 of the notes to the major items of the consolidated financial statements.

### DISTRIBUTABLE RESERVE

For the year ended 31 December 2012, the Company's distributable reserve is RMB289,773,896.98 (2011: RMB256,035,761.06), and the relevant details are set out in note 33 of the notes to the major items of the consolidated financial statements.

### PROPERTIES, PLANT AND EQUIPMENT

Details of changes of the Group's properties, plant and equipment during the year under review are set out in note 11 of the notes to the major items of the consolidated financial statements.

### BORROWINGS AND OTHERS

Details of the Group's bank and other borrowings as at 31 December 2012 are set out in notes 18, 26, and 28 of the notes to the major items of the consolidated financial statements.

# REPORT OF THE DIRECTORS

## DIRECTORS AND SUPERVISORS

The Company's Directors and Supervisors during the year and as at the date of this report are as follows:

### EXECUTIVE DIRECTORS

Mr. Zhang Shi Quan (張世權) (*Chairman and General Manager*)

Mr. Zhang Bao Yi (張寶義)

Mr. Tang Hao Han (湯浩瀚)

Mr. Zhu Jie Rong (朱頡榕)

Ms. Zhang Lan Jun (張蘭君)

### NON-EXECUTIVE DIRECTORS

Mr. Zhang Shi Zhong (張世忠)

Mr. Lou Run Zheng (樓潤正)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhao Chun Zhi (趙春智)

Mr. Chau Kam Wing, Donald (周錦榮)

Mr. Zhang Hong Zhi (張洪智)

Mr. Li Zi Biao (李自標) (appointed on 10 February 2012)

Mr. Chen Guo Feng (陳國峰) (resigned on 10 February 2012)

### SUPERVISORS

Mr. Du Min (杜敏)

Mr. Yang Di Shan (楊迪山)

Mr. Wu Lang Ping (吳琅平)

Mr. Shen Song Sheng (沈松生)

Mr. Wang Kui Quan (王奎泉)

### SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and Supervisors has entered into a service contract with the Company for a term of three years and thereafter to be renewed subject to the consent of both parties and re-election in accordance with the provisions of the Articles of Association until terminated by either party by giving no less than one month notice in writing to the other party thereafter or by the Company upon the occurrence of certain events as set out in the contract.

None of the Directors and Supervisors has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

## REPORT OF THE DIRECTORS

The Company confirms that it has received annual letter of confirmation from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules of Hong Kong Stock Exchange. The Company considers that they are independent parties pursuant to Rule 3.13 of the Listing Rules of Hong Kong Stock Exchange.

### DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION

Details of the remuneration of Directors, Supervisors and the five highest paid employees are set out on page 164 to page 168 of the annual report.

For the year ended 31 December 2012, remuneration of senior management by band is as follows:

Remuneration by band	Number of person
RMB500,000 and below	2

### STANDARDS FOR DETERMINING THE REMUNERATION OF DIRECTORS AND SUPERVISORS

The Company's remuneration policies are applicable to Directors and Supervisors. When determining the remuneration of Directors and Supervisors, besides taking reference to market basis, considerations will also be made on personal responsibilities, experiences, workload, the time of service in the Company and its subsidiaries. Other welfare benefits such as medical insurance which the Directors and Supervisors are entitled to shall be in accordance with the relevant laws and regulations of the PRC and the Company's internal regulations. The Directors are entitled to discretionary bonuses as determined under the full discretionary of the Board. In addition to the above service fees and discretionary bonuses, the Directors shall also be entitled to allowances and benefits given by the Company to other staff. The Directors are entitled to share option schemes (if any) under the relevant provisions of the Company.

# REPORT OF THE DIRECTORS

## CONNECTED PARTY TRANSACTIONS

On 17 May 2012, the Company and Zhejiang Shibao Holding entered into the Acquisition Agreement, pursuant to which Zhejiang Shibao Holding, has conditionally agreed to dispose of and the Company has conditionally agreed to acquire 90% equity interest in Changchun Shili for a total consideration of RMB10,467,600.00 (the "Consideration"). As at 17 May 2012, Zhejiang Shibao Holding held 165,387,223 Domestic Shares, representing 62.97% of the total issued share capital of the Company. Therefore, Zhejiang Shibao Holding is a controlling shareholder of the Company. Zhejiang Shibao Holding is, hence, a connected person of the Company under the Listing Rules of Hong Kong Stock Exchange. Accordingly, the transaction under the Acquisition Agreement constitutes connected transaction of the Company under Chapter 14A of the Listing Rules of Hong Kong Stock Exchange. As the relevant applicable percentage ratios in respect of the transaction under the Acquisition Agreement are more than 0.1% but lower than 5%, the Acquisition Agreement is exempt from the independent shareholders' approval requirement and is only subject to the reporting and announcement requirements under the Listing Rules of Hong Kong Stock Exchange. The completion of the acquisition shall take place within six months after the listing and commencement of trading of the A Shares on the Shenzhen Stock Exchange. As at the date of this report, equity interest of Changchun Shili is owned as to 90% by Zhejiang Shibao Holding and 10% by Changchun Mengjia Automotive Parts Company Ltd.. Upon completion of the Acquisition Agreement, Changchun Shili will become a direct non-wholly owned subsidiary of the Company and the accounts of which will be consolidated into the accounts of the Group. The acquisition would assist to resolve the potential competition issue between the Company and, its controlling shareholder, Zhejiang Shibao Holding in order to comply with the relevant regulatory authorities' requirements in the PRC in relation to the Issue of A Shares. The Consideration is to be satisfied in cash and will be funded by internal resources of the Company. Details of the connected party transactions are set out in the Company's announcement dated 17 May 2012.

In relation to the major transactions made between the Group and the related parties as set out in note 8(5) of the notes to the financial statements, during the year under review, the aforesaid equity transaction with the related party constitutes a connected transaction, and the purchase of goods from Wuhu Sterling (an associate of the Company) and the sale of finished goods to it constitute connected transactions within the meaning of the Listing Rules of Hong Kong Stock Exchange. However, such transactions with the associate are intra-group transactions exempted under Rule 14A.31(1) of the Listing Rules of Hong Kong Stock Exchange from all the reporting, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules of Hong Kong Stock Exchange.

Save as disclosed above, for the year ended 31 December 2012, the Company has no transaction which are required to be made connected transaction disclosures under the Listing Rules of Hong Kong Stock Exchange. The Company has been in compliance with the disclosure requirements under Chapter 14A of the Listing Rules of Hong Kong Stock Exchange.

## REPORT OF THE DIRECTORS

### 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 December 2012, 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 SFO) which are required to be entered in the register pursuant to section 352 of the SFO or interests or short positions which are required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange were as follows:

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

Name of Director	Capacity	Number of A Shares	Approximate percentage of shareholding in same class of shares	Approximate percentage in the Company's total issued share capital
Mr. Zhang Shi Quan	Interest in a controlled corporation (Note 1)	165,387,223	86.62%	59.57%
	Beneficial owner	10,556,632	5.53%	3.80%

Note:

(1) Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, the ultimate holding company of the Company, which in turn holds 165,387,223 A 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 A Shares held by Zhejiang Shibao Holding.

## REPORT OF THE DIRECTORS

### 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 *(continued)*

(2) Long positions in the registered capital of the ultimate holding company of the 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 A Shares representing 86.62% of the A Shares in issue and 59.57% of the total issued share capital of the Company and accordingly is an associated corporation of the Company.

# REPORT OF THE DIRECTORS

## 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 *(continued)*

(3) Long positions in the registered capital of a fellow subsidiary of the Company, Changchun Shili (an associated corporation of the Company):

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

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

On 17 May 2012, the Company and Zhejiang Shibao Holding entered into the Acquisition Agreement, pursuant to which Zhejiang Shibao Holding has conditionally agreed to dispose of and the Company has conditionally agreed to acquire 90% equity interest in Changchun Shili for a total consideration of RMB10,467,600.00 (the "Consideration"). Zhejiang Shibao Holding is a controlling shareholder of the Company. Zhejiang Shibao Holding is, hence, a connected person of the Company under the Listing Rules of Hong Kong Stock Exchange. Accordingly, the transaction under the Acquisition Agreement constitutes connected transaction of the Company under Chapter 14A of the Listing Rules of Hong Kong Stock Exchange. As the relevant applicable percentage ratios in respect of the transaction under the Acquisition Agreement are more than 0.1% but lower than 5%, the Acquisition Agreement is exempt from the independent shareholders' approval requirement and is only subject to the reporting and announcement requirements under the Listing Rules of Hong Kong Stock Exchange. The completion of the acquisition shall take place within six months after the listing and commencement of trading of the A Shares on the Shenzhen Stock Exchange. Details of this connected party transaction are disclosed under the paragraph headed "Connected Party Transactions" in this report.



## REPORT OF THE DIRECTORS

### 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 *(continued)*

- (4) Long positions in the registered capital of a fellow subsidiary of the Company, Anhui Changshan (an associated corporation of the Company):

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

*Note:* Anhui Changshan, 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 Changshan.

Save as disclosed above, as at 31 December 2012, 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 Hong Kong Stock Exchange pursuant to the Division 7 & 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 the Model Code to be notified to the Company and the Hong Kong Stock Exchange.

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, so far as is known to the Directors of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares of the Company:

Name of Shareholder	Capacity	Number and class of Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Zhejiang Shibao Holding	Beneficial owner <i>(Note 1&amp;2)</i>	165,387,223 A Shares	86.62%	59.57%
Mr. Zhang	Interest in controlled corporation <i>(Note 1&amp;2)</i>	165,387,223 A Shares	86.62%	59.57%
	Beneficial owner <i>(Note 2)</i>	10,556,632 A Shares	5.53%	3.80%

Note:

- (1) As at 31 December 2012, Zhejiang Shibao Holding owned 165,387,223 A 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 A Shares of the Company held by Zhejiang Shibao Holding.
- (2) Mr. Zhang's interest in these 175,943,855 A Shares of the Company, including 165,387,223 A Shares of the Company owned by Zhejiang Shibao Holding and 10,556,632 A Shares of the Company directly owned by himself, 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". These 165,387,223 A Shares of the Company owned by Zhejiang Shibao Holding represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding and Mr. Zhang.

Save as disclosed above, as at 31 December 2012, Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executive 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 registered to be kept under section 336 of the SFO.

# REPORT OF THE DIRECTORS

## ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

During the year under review, none of the Company, its ultimate holding company or any subsidiaries of its ultimate holding company has entered into any arrangement, allowing Directors of the Company can be benefited from the purchase of the shares or debentures of the Company or any other legal person entities, and none of the Directors, Supervisors and Chief Executive or their respectively spouse or children under 18 has any right or has exercised any right to subscribe for securities of the Company.

## SHARE OPTION SCHEME

As at 31 December 2012, the Company has not implemented any share option scheme.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Other than the service contracts of Directors and Supervisors as disclosed above, no contract of significance to which the Company, any of its subsidiaries, its controlling shareholder or any of its subsidiaries was a party and in which the Directors and Supervisors had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

## EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2012, the Group had a total of 1,511 employees, and total staff salaries and welfares costs amounted to RMB71,793,332.38 for the year under review. 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.

Our Directors believe that our Group maintains good working relationships with its employees and has not experienced any significant difficulties in recruiting and retaining employees. Our Group has not experienced any significant disruption in its operations due to labour disputes.

Our Company and its subsidiaries make contributions to municipal government retirement scheme for their respective qualified employees in the PRC. According to applicable PRC laws, both employers and employees are required to make contributions to the scheme at the specified rates pursuant to the rules of the scheme. The only obligation of our Company and its subsidiaries with respect to the scheme is to make the required contributions. The contributions payable under the scheme were properly accrued for the year ended 31 December 2012.

The contributions to be made by employees under the scheme are charged to the income statement at the respective rates equivalent to the contributions paid or payable by our Company and its subsidiaries under the rules of the scheme.

## COMPETING INTERESTS

None of the Directors, the substantial shareholders or the management shareholders of the Company (as defined in the Listing Rules of Hong Kong Stock Exchange) or their respective associates has an interest in a business which competes or may compete with the business of the Group, or has an interest in a company which may have conflicts of interest with the Group's business.

# REPORT OF THE DIRECTORS

## MANAGEMENT CONTRACTS

There were no management or administrative contract relating to the entire or any material operation of the Company entered or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, purchases attributable to the Group's five largest suppliers and revenue attributable to the five largest customers represented 21.87% and 59.40% of the Group's total purchases and total revenue respectively. In addition, the largest supplier and the largest customer represented 6.29% and 20.80% of the Group's total purchases and revenue respectively.

To the best of the Directors' knowledge, neither the Directors, their respective associates nor any shareholders who to the knowledge of the Directors owned more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers or suppliers during the year.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Since the commencement of listing of the H Shares of the Company on the Growth Enterprise Market of Hong Kong Stock Exchange on 16 May 2006 and the transfer listing from the Growth Enterprise Market to the Main Board of Hong Kong Stock Exchange on 9 March 2011, and the listing of the A Shares of the Company on Shenzhen Stock Exchange on 2 November 2012, neither the Company nor any of its subsidiaries have 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 established, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, as at the date of this report, the Company was in compliance with the Listing Rules of Hong Kong Stock Exchange which required at least 25% of the total issued share capital of the Company be held by the public.

## CORPORATE GOVERNANCE

The Corporate Governance Report adopted by the Company is set out on page 38 to page 45 of the annual report.

# REPORT OF THE DIRECTORS

## AUDITORS

Reference is made to the Company's announcement dated 12 August 2011. Based on the acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms by the Hong Kong Stock Exchange and in order to improve efficiency and reduce the cost of disclosure, the Board decided to prepare only one set of financial statements for the Company under China Accounting Standards for any financial period commencing on or after 1 January 2011. Ernst & Young tendered its resignation letter to resign as international auditors of the Company on 12 August 2011, and Ernst & Young Hua Ming, the domestic auditors of the Company, therefore took over from the international auditors all responsibilities under the Listing Rules, includes but not limited to the preliminary announcement of annual results and annual audit of continuing connected transactions.

The financial statements for the year ended 31 December 2012 have been audited by Ernst & Young Hua Ming LLP.

By order of the Board

**Zhang Shi Quan**

*Chairman and General Manager*

Hangzhou, Zhejiang, the PRC

22 March 2013

# REPORT OF THE SUPERVISORY COMMITTEE

To all shareholders:

For the year 2012, the Supervisory Committee carefully discharged its duties in strict compliance with the related provisions of the Company Law of the PRC, the Listing Rules of Hong Kong Stock Exchange, the Stock Listing Rules of Shenzhen Stock Exchange, the Articles of Association and the Organization and Procedural Rules and Regulations for the Meetings of the Supervisory Committee.

During the reporting period, the Supervisory Committee held three meetings, attended Board meetings and shareholders' meeting, and heard reports regarding the finance and profit distribution, connected transactions, operating results and use of proceeds of the Company. Through the aforementioned work, the Supervisory Committee reinforced its supervision over the financial staff and senior management of the Company during their discharge of duties, improved the effect of supervision and protected the interests of shareholders and the Company.

The Supervisory Committee is of the view that all members of the Board and other senior management of the Company have honestly and diligently discharged their duties, strived to maintain the interests of shareholders and made great efforts for better operating results of the Company in 2012. No violation of laws and regulations of the PRC and the place of listing as well as the Articles of Association of the Company have been discovered during their discharge of duties. The Supervisory Committee has confidence in the prospect of the Company.

Having reviewed the financial statements for the year ended 31 December 2012 prepared by Ernst & Young Hua Ming using PRC Accounting Standards for Business Enterprises, the Supervisory Committee is of the view that the financial statements provide an objective, true and full view of the financial position and operating results of the Group.

In the coming year, the Supervisory Committee will continue to strictly comply with the Articles of Association of the Company and the relevant provisions, so as to preserve the interests of the Company and its shareholders as its own duty, and to supervise the Company to realize its commitments to its shareholders for the best of performance.

By order of the Supervisory Committee

**Du Min**

*Convenor of the Supervisory Committee*

Hangzhou, Zhejiang, the PRC

22 March 2013

# CORPORATE GOVERNANCE REPORT

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interests of all of its stakeholders. The Company's commitment to the highest standards of corporate governance is driven by the Board who, led by the Chairman, assume overall responsibility for the governance of the Company, taking into account the interests of the Company's stakeholders, the development of its business, and the changing external environment. This report describes how the principles of the CG Code have been applied during the year ended 31 December 2012 under different aspects.

For the period under review, the Company had been in compliance with the majority of the code provisions set out in the Code on Corporate Governance Practices (effective till 31 March 2012) and the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, effective from 1 April 2012) with the exception of code provisions A.2.1, A.1.8 and A.6.7.

Under code provision A.2.1, 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 year under review. Mr. Zhang Shi Quan is the Group's founder, and is responsible for overseeing the overall strategic planning, new business development, acquisition and merging. In view of the nature of the Company's business, the Board considers that the current management structure arrangement is considerably effective in making response over market changes and finalization of strategic plans. The Board will review the efficiency of this management structure arrangement from time to time.

Under code provision A.1.8, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Board has not arranged a liability insurance for the Directors and senior executives taking into the consideration that the industry, business and financial situation of the Company are stable at present, and the Company has established sufficient internal control system. The Board will review the need for the insurance cover from time to time.

Under code provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Certain non-executive Directors and independent non-executive Directors were unable to attend the Company's annual general meeting held on 25 May 2012 due to their other business engagements.

## MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Model Code. The Company had 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 year under review.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

### COMPOSITION OF THE BOARD AND BOARD PRACTICES

The Board comprises eleven Directors, of which five are executive Directors, two are non-executive Directors and four are independent non-executive Directors.

The Board holds regular board meetings at least four times each year. For the year under review, the Board held six meetings in total and passed one written resolution.

Meeting attendance records of Directors' and committees' members during the year under review are as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment and Strategy Committee	2011 AGM
Number of meetings	6	4	1	1	1	1
<b>Executive directors</b>						
Zhang Shi Quan <i>(Chairman and General Manager)</i>	6/6				1/1	1/1
Zhang Bao Yi	6/6				1/1	0/1
Tang Hao Han	6/6					0/1
Zhu Jie Rong	6/6					1/1
Zhang Lan Jun	6/6			1/1		1/1
<b>Non-executive directors</b>						
Zhang Shi Zhong	6/6	4/4	1/1			1/1
Lou Run Zheng	6/6					0/1
<b>Independent non-executive directors</b>						
Zhao Chun Zhi	6/6			1/1		0/1
Chau Kam Wing, Donald	6/6	4/4	1/1	1/1		1/1
Zhang Hong Zhi	6/6	4/4	1/1			0/1
Li Zi Biao <i>(Note 1)</i>	6/6					0/1
Chen Guo Feng <i>(Note 2)</i>	0/0	0/0	0/0			0/0

Note:

(1) Li Zi Biao was appointed on 10 February 2012.

(2) Chen Guo Feng resigned as independent non-executive Director and the member of Audit Committee and Remuneration Committee on 10 February 2012.



## CORPORATE GOVERNANCE REPORT

Each of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and each of the Supervisors has entered into a service contract with the Company for a term of three years and thereafter to be renewed subject to the consent of both parties and re-election in accordance with the provisions of the Articles of Association until terminated by either party by giving no less than one month notice in writing to the other party thereafter or by the Company upon the occurrences of certain events as set out in the contract.

None of the Directors and Supervisors has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

The Company has fully complied with Rules 3.10(1) and (2) of the Listing Rules of Hong Kong Stock Exchange, and has appointed four independent non-executive Directors, of which at least one possesses appropriate professional qualification or accounting or related financial management expertise. The Board considers that all the independent non-executive Directors are independent parties under Rule 3.13 of the Listing Rules of Hong Kong Stock Exchange, and has received annual independence confirmation letters from each of the independent non-executive Directors as required by the Listing Rules of Hong Kong Stock Exchange.

Mr. Zhang Shi Zhong (a non-executive Director of the Company) is the younger brother of Mr. Zhang Shi Quan (Chairman and General Manager of the Company). Mr. Zhang Bao Yi (an executive Director of the Company) is the son of Mr. Zhang Shi Quan. Ms. Zhang Lan Jun (an executive Director of the Company) is the daughter of Mr. Zhang Shi Quan. Mr. Tang Hao Han (an executive Director of the Company) is the son-in-law of Mr. Zhang Shi Quan. Save for the above, there is no other financial, business, family or material relationship between the members of the Board.

The Board is responsible for the approval and supervision of the overall strategies and policies of the Company, approval of business plans, assessment of the Group's performance and supervision on the management. The Board is also responsible to instruct and supervise the Company's businesses to promote the success of the Company and its businesses.

The Board is focused on the overall strategies and policies, in particular on the growth and financial performance of the Group. The strategy of the Company is to commit itself to the research and development and manufacturing of automotive steering technologies and products, and provide high-tech and high-quality steering products to automakers. The Company is also committed itself to the research and development of light-weight and energy-saving technologies for automotive steerings, and to be a leading brand of electric power steering (EPS) system in the PRC. The Company is also developing the global market through acquisition, merging and export trading.

The Board designates the Group's daily operation works to the executive Directors and senior management for handling. The Board makes decisions on certain important matters, including annual business plans; annual financial budgets; annual remuneration plans; interim and annual financial reports; preliminary distribution plans in respect of interim and full year profit; and material issues involving development, acquisition or corporate reorganization of the Company. The Board transmits its decisions to the management through executive Directors who attend Board meetings.

# CORPORATE GOVERNANCE REPORT

## INDUCTION AND DEVELOPMENT

All new Directors receive a personalised induction programme, tailored to their experience and background, which is designed to enhance their knowledge and understanding of the Group's culture and operations. The programme usually includes a briefing on the Group's structure, businesses and governance practices.

During the year under review, the Company arranged two trainings for the Directors, including the independent directors' standards, and directors' integrity and standards. Effective from April 2012, all Directors shall provide their training records to the Company every six months.

## INTERNAL CONTROL

An effective internal control system is very important for the protection of the Group's assets and shareholders' investments, ensuring the reliability of financial information announcements and compliance with the listing rules. The Board is also aware of its responsibility towards the Group's internal control, financial control and risk management, and its responsibility of supervising the efficiency from time to time.

In 2012, the Company engaged Ernst & Young Hua Ming LLP to examine the "internal control review report of Zhejiang Shibao Company Limited relevant to the financial statement as at 30 June 2012" prepared by the management of the Company. The Directors and the management of the Company considered that the Company has established a comprehensive, complete and reasonable internal control system relevant to the financial statements pursuant to the related requirements and maintained an effective internal control relevant to the financial statements in all material aspects pursuant to the related requirements as at 30 June 2012.

## REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 26 April 2006 and has stipulated written terms of reference for the Remuneration Committee. The main duties of the Remuneration Committee include (i) propose to the Board in respect of the remuneration policy and structure of the Company's Directors and senior management; (ii) set up a formal and transparent procedure for the determination of such remuneration policy; and (iii) assess performances and set up remuneration policy based on such assessment.

The Remuneration Committee consists of three members, namely Mr. Chau Kam Wing, Donald (Chairman of the Remuneration Committee) and Mr. Zhang Hong Zhi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). During the year under review, the Remuneration Committee held one meeting to review the remuneration packages of Directors, Supervisors and senior management. Records of meeting attendance of each member of the committee are set out on page 39 under "Board of Directors" section.

# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE

The Company established the Nomination Committee on 13 May 2011 and has stipulated written terms of reference for the Nomination Committee. The main duties of the Nomination Committee include (i) study the standards and processes of the selection of Directors, general manager and other senior executives, and provide suggestions to the Board; (ii) look for qualified candidates of Directors, general manager and other senior executives in a wide scope; (iii) inspect and provide suggestions on the candidates of Directors, general manager and other senior executives; and (iv) review the structure, size and composition of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The Nomination Committee consists of three members, namely Mr. Chau Kam Wing, Donald (Chairman of the Nomination Committee) and Mr. Zhao Chun Zhi (both are independent non-executive Directors) and Ms. Zhang Lan Jun (executive Director). During the year under review, the Nomination Committee held one meeting to review the structure, size and composition of the Board in light of the Company's corporate strategy. Records of meeting attendance of each member of the committee are set out on page 39 under "Board of Directors" section.

## AUDIT COMMITTEE

The Company established the Audit Committee on 26 April 2006 and has stipulated written terms of reference for the Audit Committee. The main responsibilities of the Audit Committee are to provide proposals to the Board in respect of the appointment and removal of external auditors, approve the remuneration and appointment terms of external auditors, review financial information and supervise financial reporting system and internal control procedures.

The Audit Committee has three members, namely Mr. Chau Kam Wing, Donald (Chairman of the Audit Committee) and Mr. Zhang Hong Zhi (both are independent non-executive Directors) and Mr. Zhang Shi Zhong (non-executive Director). During the year under review, the Audit Committee held four meetings and passed one written resolution. Records of meeting attendance of each member of the committee are set out on page 39 under "Board of Directors" section.

The principal activities of the Audit Committee during the year under review include:

- To approve the audited financial report of the Group for the year ended 31 December 2011 and submit it to the Board for discussion;
- To approve the unaudited financial report of the Group for the six months ended 30 June 2012 and submit it to the Board for discussion;
- To review the unaudited financial information of the Group for the nine months ended 30 September 2012;
- To propose the re-appointment of Ernst & Young Hua Ming LLP as the external auditors of the Company;
- To approve the annual audit expenses and the non-annual audit expenses and the appointment terms of the external auditors for 2012;
- To approve the annual audit planning for 2012 of the external auditors; and
- To approve the internal control review report of the Company for 2011 and submit it to the Board for discussion.

The Company's audited financial reports for the year ended 31 December 2012 has been reviewed by the Audit Committee.

# CORPORATE GOVERNANCE REPORT

## SUPERVISORY COMMITTEE

The establishment of the Supervisory Committee is in compliance with the Company Law of the PRC. The Supervisory Committee of the Company comprises five members, namely Mr. Du Min (the convenor of the Supervisory Committee), Mr. Yang Di Shan, Mr. Wu Lang Ping, Mr. Shen Song Sheng and Mr. Wang Kui Quan. Each of the Supervisors have made their best efforts to discharge their duties, and effectively supervise whether the financial matters of the Company are in compliance with the laws and regulatory requirements, and supervise the Directors and senior management in performing their duties.

## REMUNERATION OF THE AUDITORS

For the year ended 31 December 2012, the remuneration paid by the Company to Ernst & Young Hua Ming LLP, the auditors of the Company, in respect of their audit services and non-audit services are as follows:

	RMB
Statutory audit services	1,000,000.00
Non-statutory audit services – audit for A Shares listing	<u>800,000.00</u>
Total	<u><u>1,800,000.00</u></u>

## COMPANY SECRETARY

The Company engages an external service provider as its company secretary, the Board Secretary of the Company is a contact person of the external service provider. The biography of the Company Secretary and the Board Secretary of the Company are set out in the “Directors, Supervisors and Senior Management” section. During the year under review, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

## RESPONSIBILITY OF DIRECTORS AND AUDITORS ON THE ACCOUNTS

The Board confirms its responsibilities on the preparation of the Group’s financial statements. The Directors shall ensure that the Group’s financial statements have been prepared in accordance with the statutory requirements and the applicable accounting standards.

Statements of the Company’s auditors in respect of their reporting responsibilities on the Group’s financial statements are set out on page 46 to page 47 of the Auditors’ Report in this annual report.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

Shareholders singly or jointly holding more than ten per cent (10%) (inclusive) of the shares carrying voting rights (excluding proxy voting rights) of the Company have the right to propose in written form the convention of extraordinary general meeting to the Board. Where the Board disapproves the convention of extraordinary general meeting or fails to issue the feedback within ten (10) days after receiving the request, the shareholders singly or jointly holding more than ten per cent (10%) (inclusive) of the shares carrying voting rights (excluding proxy voting rights) of the Company is entitled to propose in written form the convention of extraordinary general meeting to Supervisory Committee. Where Supervisory Committee fails to issue the notice within the prescribed time limit, it shall be deemed refused to convene and preside over the general meeting and the shareholders singly or jointly holding more than ten per cent (10%) (inclusive) of the Company's share carrying voting rights (excluding proxy voting rights) for more than ninety (90) consecutive days may convene and preside over the meeting themselves. Procedures of convening such general meeting shall follow the same procedures as of convening such meeting by the Board as far as possible. The relevant written requisition shall be delivered to the Board Secretary at the registered office of the Company and the objects of the meeting must be stated in the written requisition.

The Board always ensures that shareholders' and stakeholders' views are heard and understood, and welcomes their questions and concerns relating to the Group's management and governance. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to Board Secretary or Company Secretary by post or email at [ir@zjshibao.com](mailto:ir@zjshibao.com). The contact details is set out in the "Corporate Profile" section of this annual report.

Shareholders singly or jointly holding more than three per cent (3%) (inclusive) of the Company's share carrying voting rights are entitled to raise proposal to the Company. The Company shall include such items of the proposal that are within the scope of duty of the general meeting in the meeting agenda. Motions at a general meeting shall meet the following requirements: (I) the contents shall not run counter to provisions of the laws, administrative regulations and the Articles of Association and shall fall within the scope of business of the Company and terms of reference of a general meeting; (II) the motions shall cover specific topics for discussion and specific issues to be resolved; and (III) the motions shall be submitted or delivered to the Board in written form. Shareholders either individually or in aggregate holding over three per cent (3%) (inclusive) of the Company's shares carrying voting rights may submit their proposed resolutions in writing to the convener ten (10) days prior to the general meeting. The relevant written request shall be delivered to the Board Secretary at the registered office of the Company.

# CORPORATE GOVERNANCE REPORT

## **SIGNIFICANT CHANGES IN ARTICLES OF ASSOCIATION**

The Company has made certain amendments to the Articles of Association in relation to the Issue of A Shares as required by the applicable PRC laws and regulations. Some of the proposed amendments to the Articles of Association are for the sake of improvement and enhancement of the corporate governance of the Company and make the Articles of Association complying with the relevant requirements of the Listing Rules of the Hong Kong Stock Exchange. The amendments of the Articles of Association were approved on the extraordinary general meeting, the class meeting for holders of H Shares and the class meeting for holders of domestic shares held on 20 June 2011.

## **RELATIONSHIP WITH SHAREHOLDERS**

The Company has undertaken to maintain the highest level of transparency, and to apply the policy of making public and timely disclosures of the relevant information to shareholders of the Company. The Company shall communicate with shareholders through its annual and interim reports.

## **RELATIONSHIP WITH INVESTORS**

The Company regularly meets with analysts and attends various forums, so as to strengthen relationships with the investment sector.

# AUDITORS' REPORT

*(English Translation for Reference Only)*



Ernst & Young Hua Ming (2013) Shen Zi No. 60468008\_B01

## TO THE SHAREHOLDERS OF ZHEJIANG SHIBAO COMPANY LIMITED

We have audited the accompanying financial statements of Zhejiang Shibao Company Limited, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated and company income statements, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements.

### I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements. This responsibility includes: (1) preparing and fairly presenting the financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### II. CERTIFIED PUBLIC ACCOUNTS' RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the China Standards on Auditing. Those standards require that we comply with Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# AUDITORS' REPORT

*(English Translation for Reference Only)*

## III. OPINION

In our opinion, the financial statements present fairly, in all material aspects, the consolidated and company's financial position of Zhejiang Shibao Company Limited as at 31 December 2012 and the consolidated and company's financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming LLP  
Beijing, the PRC

Chinese Certified Public Accountant: Qian Jiang  
Chinese Certified Public Accountant: Su Yin

22 March 2013



# CONSOLIDATED BALANCE SHEET

31 December 2012  
RMB Yuan  
(English Translation for Reference Only)

Assets	Note 5	31 December 2012	31 December 2011
<b>Current Assets</b>			
Cash on hand and at bank	1	78,543,676.91	43,234,111.34
Notes receivable	2	117,298,613.04	137,538,266.04
Accounts receivable	3	285,788,006.40	203,618,895.42
Prepayments	4	7,492,521.04	6,354,952.61
Other receivables	5	8,858,237.88	9,216,366.98
Inventories	6	136,467,615.08	122,418,117.92
Available-for-sale financial assets	7	4,000,000.00	-
Other current assets	8	<u>1,224,181.63</u>	<u>1,876,410.23</u>
Total current assets		<u>639,672,851.98</u>	<u>524,257,120.54</u>
<b>Non-current Assets</b>			
Long-term equity investments	10	9,376,207.19	11,696,900.10
Fixed assets	11	352,252,860.50	290,304,220.05
Construction in progress	12	92,861,833.52	140,976,414.81
Intangible assets	13	70,278,922.57	74,352,887.70
Goodwill	14	-	-
Deferred income tax assets	15	3,540,202.68	1,525,065.14
Other non-current assets	16	<u>14,255,150.05</u>	<u>8,239,189.54</u>
Total non-current assets		<u>542,565,176.51</u>	<u>527,094,677.34</u>
<b>Total Assets</b>		<u><u>1,182,238,028.49</u></u>	<u><u>1,051,351,797.88</u></u>

# CONSOLIDATED BALANCE SHEET

31 December 2012  
RMB Yuan  
(English Translation for Reference Only)

Liabilities and Shareholders' Equity	Note 5	31 December 2012	31 December 2011
<b>Current Liabilities</b>			
Short-term loans	18	191,500,000.00	114,079,832.00
Notes payable	19	19,849,353.45	14,771,590.00
Accounts payable	20	163,609,486.56	165,119,836.40
Receipts in advance	21	2,280,342.43	2,235,262.83
Staff cost payable	22	4,214,108.09	3,524,754.51
Taxes payable	23	(2,571,272.18)	5,743,037.16
Interests payable	24	1,497,183.50	1,366,471.76
Other payables	25	831,632.70	951,788.17
Non-current liabilities due within one year	26	13,790,400.00	13,000,000.00
Other current liabilities	27	8,290,557.10	10,653,379.56
Total current liabilities		<u>403,291,791.65</u>	<u>331,445,952.39</u>
<b>Non-current Liabilities</b>			
Long-term borrowings	28	15,630,000.00	30,020,400.00
Deferred income tax liabilities	15	1,505,958.33	1,698,208.33
Other non-current liabilities	29	27,984,418.23	26,202,378.62
Total non-current liabilities		<u>45,120,376.56</u>	<u>57,920,986.95</u>
Total Liabilities		<u>448,412,168.21</u>	<u>389,366,939.34</u>

# CONSOLIDATED BALANCE SHEET

31 December 2012

RMB Yuan

(English Translation for Reference Only)

		31 December 2012	31 December 2011
<b>Liabilities and Shareholders' Equity</b>	Note 5		
<b>Shareholders' Equity</b>			
Share capital	30	277,657,855.00	262,657,855.00
Capital reserve	31	42,299,204.72	27,587,397.23
Statutory reserve funds	32	107,210,809.82	95,087,541.52
Retained earnings	33	<u>289,773,896.98</u>	<u>256,035,761.06</u>
Equity attributable to equity holders of the Parent		<u>716,941,766.52</u>	<u>641,368,554.81</u>
Minority interests	34	<u>16,884,093.76</u>	<u>20,616,303.73</u>
Total Shareholders' Equity		<u>733,825,860.28</u>	<u>661,984,858.54</u>
<b>Total Liabilities and Shareholders' Equity</b>		<u><u>1,182,238,028.49</u></u>	<u><u>1,051,351,797.88</u></u>

Signature:

Legal representative:

Finance director:

Finance manager:

# CONSOLIDATED INCOME STATEMENT

31 December 2012  
RMB Yuan  
(English Translation for Reference Only)

	Note 5	2012	2011
<b>Revenue</b>	35	548,384,676.25	625,917,119.21
Less: Cost of sales	35	379,802,713.65	403,887,118.40
Business taxes and surcharges	36	3,427,055.31	5,156,884.62
Selling expenses	37	33,163,289.07	35,881,539.03
General and administrative expenses	38	61,988,355.05	54,553,179.60
Financial expenses	39	8,569,382.77	5,694,893.68
Asset impairment losses	40	(1,981,818.96)	(1,014,037.16)
Add: Investment losses	41	(2,320,296.63)	(127,683.62)
Including: Share of losses from an associate		(2,320,296.63)	(127,683.62)
<b>Operating profit</b>		61,095,402.73	121,629,857.42
Add: Non-operating income	42	20,899,618.87	5,406,050.02
Less: Non-operating expenses	43	2,498,499.60	1,141,411.63
Including: Loss on disposal of non-current assets		163,092.08	318,526.97
<b>Total profit</b>		79,496,522.00	125,894,495.81
Less: Income tax expenses	44	10,601,542.25	15,246,498.53
<b>Net Profit</b>		68,894,979.75	110,647,997.28
Net profit attributable to equity holders of the Parent		72,127,189.72	112,872,143.11
Minority interests		(3,232,209.97)	(2,224,145.83)
<b>Earnings per share</b>			
Basic earnings per share	45	0.27	0.43
Diluted earnings per share	45	0.27	0.43
Other comprehensive income		-	-
<b>Total comprehensive income</b>		68,894,979.75	110,647,997.28
Including:			
Total comprehensive income attributable to equity holders of the Parent		72,127,189.72	112,872,143.11
Total comprehensive income attributable to minority shareholders		(3,232,209.97)	(2,224,145.83)

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2012

RMB Yuan

(English Translation for Reference Only)

	2012						Total shareholders' equity
	Attributable to equity holders of the Parent					Minority interests	
	Share capital	Capital reserve	Statutory reserve funds	Retained earnings	Sub-total		
1. Balance at the beginning of year	262,657,855.00	27,587,397.23	95,087,541.52	256,035,761.06	641,368,554.81	20,616,303.73	661,984,858.54
2. Increase/decrease during the year							
(1) Net profit	-	-	-	72,127,189.72	72,127,189.72	(3,232,209.97)	68,894,979.75
(2) Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	72,127,189.72	72,127,189.72	(3,232,209.97)	68,894,979.75
(3) Contribution by shareholders in capital							
a. Contribution by shareholders in capital	15,000,000.00	14,711,807.49	-	-	29,711,807.49	-	29,711,807.49
(4) Appropriation of profits							
a. Transfer to statutory reserve funds	-	-	12,123,268.30	(12,123,268.30)	-	-	-
b. Distribution to shareholders	-	-	-	(26,265,785.50)	(26,265,785.50)	(500,000.00)	(26,765,785.50)
3. Balance at the end of year	<u>277,657,855.00</u>	<u>42,299,204.72</u>	<u>107,210,809.82</u>	<u>289,773,896.98</u>	<u>716,941,766.52</u>	<u>16,884,093.76</u>	<u>733,825,860.28</u>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2012

RMB Yuan

(English Translation for Reference Only)

	2011						Total shareholders' equity
	Attributable to equity holders of the Parent					Minority interests	
	Share capital	Capital reserve	Statutory reserve funds	Retained earnings	Sub-total		
1. Balance at the beginning of year	262,657,855.00	27,500,772.59	84,961,353.85	176,929,012.57	552,048,994.01	24,727,074.20	576,776,068.21
2. Increase/decrease during the year							
(1) Net profit	-	-	-	112,872,143.11	112,872,143.11	(2,224,145.83)	110,647,997.28
(2) Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	112,872,143.11	112,872,143.11	(2,224,145.83)	110,647,997.28
(3) Contribution by shareholders and decrease in capital							
a. Purchase of minority interests in subsidiaries	-	86,624.64	-	-	86,624.64	(1,236,624.64)	(1,150,000.00)
(4) Appropriation of profits							
a. Transfer to statutory reserve funds	-	-	10,126,187.67	(10,126,187.67)	-	-	-
b. Distribution to shareholders	-	-	-	(23,639,206.95)	(23,639,206.95)	(650,000.00)	(24,289,206.95)
3. Balance at the end of year	<u>262,657,855.00</u>	<u>27,587,397.23</u>	<u>95,087,541.52</u>	<u>256,035,761.06</u>	<u>641,368,554.81</u>	<u>20,616,303.73</u>	<u>661,984,858.54</u>

# CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2012  
RMB Yuan  
(English Translation for Reference Only)

	Note 5	2012	2011
1. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		604,651,290.38	610,777,602.75
Cash received relating to other operating activities	46	<u>6,621,355.29</u>	<u>18,246,017.93</u>
Sub-total of cash inflow		<u>611,272,645.67</u>	<u>629,023,620.68</u>
Cash paid for goods and services		408,593,032.89	391,331,440.54
Cash paid to and on behalf of employees		71,103,978.80	64,110,244.73
Cash paid for taxes and levies		54,941,355.99	61,961,709.17
Cash paid relating to other operating activities	46	<u>58,431,978.83</u>	<u>66,661,925.83</u>
Sub-total of cash outflow		<u>593,070,346.51</u>	<u>584,065,320.27</u>
Net cash flow from operating activities	47	<u>18,202,299.16</u>	<u>44,958,300.41</u>
2. Cash flows from investing activities			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		11,603,815.86	334,729.87
Cash received relating to other investing activities	46	<u>5,631,257.41</u>	<u>25,780,761.72</u>
Sub-total of cash inflow		<u>17,235,073.27</u>	<u>26,115,491.59</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		55,700,292.47	142,167,862.11
Cash paid to invest in an associate		–	4,840,000.00
Net cash paid to purchase of minority interests in a Subsidiary		–	1,150,000.00
Cash paid relating to other investing activities		<u>4,000,000.00</u>	<u>–</u>
Sub-total of cash outflow		<u>59,700,292.47</u>	<u>148,157,862.11</u>
Net cash flow from investing activities		<u>(42,465,219.20)</u>	<u>(122,042,370.52)</u>

# CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2012  
RMB Yuan  
(English Translation for Reference Only)

	Note 5	2012	2011
3. Cash flows from financing activities			
Cash received from investments		38,700,000.00	–
Cash received from borrowings		205,950,000.00	190,600,000.00
Cash received relating to other financing activities	46	<u>3,000,000.00</u>	<u>–</u>
Sub-total of cash inflow		<u>247,650,000.00</u>	<u>190,600,000.00</u>
Cash paid for debt repayments		142,129,832.00	88,589,768.00
Cash paid for distribution of dividends, profit or interest expenses		38,542,125.80	30,818,188.55
Including: dividends and profit to minority interests by subsidiaries		500,000.00	650,000.00
Cash paid relating to other financing activities	46	<u>6,653,935.75</u>	<u>2,334,256.76</u>
Sub-total of cash outflow		<u>187,325,893.55</u>	<u>121,742,213.31</u>
Net cash flow from financing activities		<u>60,324,106.45</u>	<u>68,857,786.69</u>
4. Effect of changes in foreign exchange rate on cash and cash equivalents		<u>–</u>	<u>–</u>
5. Net increase/(decrease) in cash and cash equivalents		36,061,186.41	(8,226,283.42)
Add: opening balance of cash and cash equivalents		<u>40,711,980.73</u>	<u>48,938,264.15</u>
6. Closing balance of cash and cash equivalents	47	<u><u>76,773,167.14</u></u>	<u><u>40,711,980.73</u></u>



# BALANCE SHEET

31 December 2012  
RMB Yuan  
(English Translation for Reference Only)

Assets	Note 7	31 December 2012	31 December 2011
<b>Current Assets</b>			
Cash on hand and at bank		31,336,987.85	997,762.45
Notes receivable		450,000.00	350,000.00
Accounts receivable	1	19,391,554.80	18,242,228.66
Prepayments		82,651.65	48,575.75
Dividend receivable		35,000,000.00	-
Other receivables	2	231,416,409.98	223,681,859.79
Inventories		5,104,897.35	5,872,699.92
Other current assets		<u>31,357.50</u>	<u>41,813.34</u>
Total current assets		<u>322,813,859.13</u>	<u>249,234,939.91</u>
<b>Non-current Assets</b>			
Long-term equity investments	3	137,376,207.19	139,696,900.10
Fixed assets		7,776,892.79	6,567,783.15
Intangible assets		5,441,067.04	5,613,713.08
Deferred income tax assets		96,920.48	125,580.45
Other non-current assets		<u>5,600,000.00</u>	<u>-</u>
Total non-current assets		<u>156,291,087.50</u>	<u>152,003,976.78</u>
<b>Total Assets</b>		<u><u>479,104,946.63</u></u>	<u><u>401,238,916.69</u></u>

# BALANCE SHEET

31 December 2012  
RMB Yuan  
(English Translation for Reference Only)

Liabilities and Shareholders' Equity	Note 7	30 December 2012	31 December 2011
<b>Current Liabilities</b>			
Short-term loans		65,000,000.00	55,000,000.00
Accounts payable		6,109,290.83	6,097,383.53
Receipts in advance		48,000.00	91,100.00
Staff cost payable		742,040.71	638,263.53
Taxes payable		836,516.28	(18,414.33)
Interests payable		127,840.49	163,848.82
Other payables		121,177.08	682,672.00
Other current liabilities		<u>1,000,000.00</u>	<u>1,200,000.00</u>
Total current liabilities		<u>73,984,865.39</u>	<u>63,854,853.55</u>
Total Liabilities		<u>73,984,865.39</u>	<u>63,854,853.55</u>
<b>Shareholders' Equity</b>			
Share capital		277,657,855.00	262,657,855.00
Capital reserve		41,590,963.68	26,879,156.19
Statutory reserve funds		55,797,130.47	49,368,130.86
Retained earnings/(accumulated losses)		<u>30,074,132.09</u>	<u>(1,521,078.91)</u>
Total Shareholders' Equity		<u>405,120,081.24</u>	<u>337,384,063.14</u>
<b>Total Liabilities and Shareholders' Equity</b>		<u><u>479,104,946.63</u></u>	<u><u>401,238,916.69</u></u>

# INCOME STATEMENT

31 December 2012  
RMB Yuan  
(English Translation for Reference Only)

	Note 7	2012	2011
Revenue	4	40,232,232.33	46,431,236.29
Less: Cost of sales	4	28,768,542.26	35,782,492.96
Business taxes and surcharges		207,580.62	240,323.76
Selling expenses		583,405.42	391,652.40
General and administrative expenses		8,183,533.03	7,923,195.26
Financial expenses		3,396,629.60	2,371,040.09
Asset impairment losses		(112,299.84)	148,578.58
Add: Investment gains	5	62,679,307.09	28,907,586.00
Including: Share of losses from an associate		(2,320,692.91)	(942,414.00)
Operating profit		61,884,148.33	28,481,539.24
Add: Non-operating income		3,035,496.34	3,485,402.51
Less: Non-operating expenses		40,590.49	5,827.31
Total profit		64,879,054.18	31,961,114.44
Less: Income tax expenses		589,058.07	774,960.61
Net Profit		<u>64,289,996.11</u>	<u>31,186,153.83</u>
Other comprehensive income		—	—
Total comprehensive income		<u>64,289,996.11</u>	<u>31,186,153.83</u>

# STATEMENT OF CHANGES IN EQUITY

31 December 2012

RMB Yuan

(English Translation for Reference Only)

	2012				
	Share capital	Capital reserve	Statutory reserve funds	Retained earnings/ (accumulated losses)	Total shareholders' equity
1. Balance at the beginning of year	262,657,855.00	26,879,156.19	49,368,130.86	(1,521,078.91)	337,384,063.14
2. Increase/decrease during the year					
(1) Net profit	-	-	-	64,289,996.11	64,289,996.11
(2) Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	64,289,996.11	64,289,996.11
(3) Contribution by shareholders and decrease in capital					
a. Contribution by shareholders in capital	15,000,000.00	14,711,807.49	-	-	29,711,807.49
(4) Appropriation of profits					
a. Transfer to statutory reserve funds	-	-	6,428,999.61	(6,428,999.61)	-
b. Distribution to shareholders	-	-	-	(26,265,785.50)	(26,265,785.50)
3. Balance at the end of year	<u>277,657,855.00</u>	<u>41,590,963.68</u>	<u>55,797,130.47</u>	<u>30,074,132.09</u>	<u>405,120,081.24</u>

# STATEMENT OF CHANGES IN EQUITY

31 December 2012

RMB Yuan

(English Translation for Reference Only)

	Share capital	Capital reserve	2011		Total shareholders' equity
			Statutory reserve funds	Accumulated losses	
1. Balance at the beginning of year	262,657,855.00	26,879,156.19	46,249,515.48	(5,949,410.41)	329,837,116.26
2. Increase/decrease during the year					
(1) Net profit	-	-	-	31,186,153.83	31,186,153.83
(2) Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	31,186,153.83	31,186,153.83
(3) Appropriation of profits					
a. Transfer to statutory reserve funds	-	-	3,118,615.38	(3,118,615.38)	-
b. Distribution to shareholders	-	-	-	(23,639,206.95)	(23,639,206.95)
3. Balance at the end of year	<u>262,657,855.00</u>	<u>26,879,156.19</u>	<u>49,368,130.86</u>	<u>(1,521,078.91)</u>	<u>337,384,063.14</u>

# STATEMENT OF CASH FLOWS

31 December 2012  
RMB Yuan  
(English Translation for Reference Only)

	2012	2011
1. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	45,779,285.94	93,851,256.05
Cash received relating to other operating activities	<u>51,161,193.05</u>	<u>3,485,402.51</u>
Sub-total of cash inflow	<u>96,940,478.99</u>	<u>97,336,658.56</u>
Cash paid for goods and services	30,701,330.58	39,156,102.55
Cash paid to and on behalf of employees	4,164,087.56	3,389,304.17
Cash paid for taxes and levies	1,905,094.72	3,411,910.08
Cash paid relating to other operating activities	<u>67,662,914.98</u>	<u>81,326,284.81</u>
Sub-total of cash outflow	<u>104,433,427.84</u>	<u>127,283,601.61</u>
Net cash flow from operating activities	<u>(7,492,948.85)</u>	<u>(29,946,943.05)</u>
2. Cash flows from investing activities		
Cash received from investments gains	30,000,000.00	29,850,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	100,000.00	-
Cash received relating to other investing activities	<u>264,287.76</u>	<u>348,681.16</u>
Sub-total of cash inflow	<u>30,364,287.76</u>	<u>30,198,681.16</u>
Cash paid to acquire fixed assets, intangible assets and other long- term assets	7,628,043.94	396,659.22
Cash paid to invest in associates	-	4,840,000.00
Net cash paid to purchase of minority interests in subsidiaries	<u>-</u>	<u>1,150,000.00</u>
Sub-total of cash outflow	<u>7,628,043.94</u>	<u>6,386,659.22</u>
Net cash flow from investing activities	<u>22,736,243.82</u>	<u>23,812,021.94</u>

# STATEMENT OF CASH FLOWS

31 December 2012  
RMB Yuan  
(English Translation for Reference Only)

	2012	2011
3. Cash flows from financing activities		
Cash received from investments	38,700,000.00	–
Cash received from borrowings	65,000,000.00	110,000,000.00
Cash received relating to other financing activities	<u>3,000,000.00</u>	<u>–</u>
Sub-total of cash inflow	<u>106,700,000.00</u>	<u>110,000,000.00</u>
Cash paid for debt repayments	55,000,000.00	75,000,000.00
Cash payments for distribution of dividends, profit or interest expenses	29,950,133.82	26,161,938.04
Cash paid relating to other financing activities	<u>6,653,935.75</u>	<u>2,334,256.76</u>
Sub-total of cash outflow	<u>91,604,069.57</u>	<u>103,496,194.80</u>
Net cash flow from financing activities	<u>15,095,930.43</u>	<u>6,503,805.20</u>
4. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>–</u>	<u>–</u>
5. Net increase in cash and cash equivalents	30,339,225.40	368,884.09
add: opening balance of cash and cash equivalents	<u>997,762.45</u>	<u>628,878.36</u>
6. Closing balance of cash and cash equivalents	<u><u>31,336,987.85</u></u>	<u><u>997,762.45</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

RMB Yuan

(English Translation for Reference Only)

## 1. GENERAL

Zhejiang Shibao Company Limited ("Company") is a joint stock limited company registered in Zhejiang Province of the People's Republic of China ("PRC") and approved by the document (ZHE SHANG SHI [2004] 37) (浙上市[2004]37號) issued by the Listing Affair Team (上市工作領導小組) of the People's Government of Zhejiang Province on 30 April 2004. The Company was established by ways of promotion jointly by Zhejiang Shibao Holding Group Co., Ltd. ("Zhejiang Shibao Holding"), Wu Wei Xu (吳偉旭), Wu Lang Yue (吳琅躍), Du Chun Mao (杜春茂) and Chen Wen Hong (陳文洪). The Company was approved by and registered with Zhejiang Administration For Industry & Commerce. Its business license registration number is 330000400002163. The Company's H Shares are listed on the Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"). The headquarter of the Company is located at No.1 Shuanglin Road, Fotang Town, Yiwu, Zhejiang Province. The Company and its subsidiaries (together, the "Group") is mainly engaged in the develop, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The Group mainly produces automotive steering gear products and is classified to automotive components manufacturing industry.

The Company was reformed to a joint stock limited company from Zhejiang Shibao Steering Gear Co., Ltd., the predecessor of the Company on 12 July 2004.

As at the registration, the Company's registered capital was RMB175,943,855, and total share capital was 175,943,855 shares, among which 165,387,223 shares were legal person shares and 10,556,632 shares were natural person shares. Nominal value of the Company's share is RMB1 each.

On 22 August 2005, the Company granted the document of "Approval of Issuance of Offshore Listing Foreign Shares of Zhejiang Shibao Company Limited" issued by CSRC (ZHENG JIAN GUO HE ZI [2005] 22) (證監國合字[2005]22號), whereas the issuance of offshore listing foreign shares of the Company was approved by CSRC. On 16 May 2006, the Company completed the initial public offer of H Shares and the Company's H Shares were listed on the GEM of the Stock Exchange. Total issued H Shares of the Company was 86,714,000 H Shares with a nominal value of RMB1 each. After the issuance, the Company's registered capital was increased to RMB262,657,855, among which Zhejiang Shibao Holding, H Shares and Wu Wei Xu together with other three natural persons as a whole holding 62.97%, 33.01% and 4.02% of the Company's shares respectively. Increased capital contributions of RMB86,714,000 was verified by Ernest Young Hua Ming and issued certification (ERNST & YOUNG HUA MING (2007) YAN ZI DI 60468008\_B01) (安永華明(2007)驗資第60468008\_B01號). In November 2007, Wu Wei Xu (吳偉旭) and other three natural person shareholders signed "Share Transfer Agreement Of Zhejiang Shibao Company Limited" with Wang Yu Jie (王玉潔) and other five natural persons respectively to transfer total 2.87% of the Company's shares. After the completion of the transfer, Zhejiang Shibao Holding, H Shares and Wu Wei Xu (吳偉旭) together with other seven natural persons as a whole holding 62.97%, 33.01% and 4.02% of the Company's shares respectively.



# NOTES TO THE FINANCIAL STATEMENTS

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## 1. GENERAL (continued)

On 19 April, 2011, Zhang Shi Quan (張世權) signed "Share Transfer Agreement Of Zhejiang Shibao Company Limited" with Wu Wei Xu (吳偉旭), Zhang Jun Yi (張俊義), Fu Zhong Xian (傅忠仙), Hui Yan (惠岩), Wang Yu Jie (王玉潔), Zhang Qin Fang (張琴芳), Zheng Yong Ping (鄭永平) and Du Chun Mao (杜春茂) respectively, whereas Wu Wei Xu (吳偉旭) and other seven natural persons transferred total 4.02% of the Company's shares to Zhang Shi Quan (張世權). After the completion of the transfer, Zhejiang Shibao Holding, H Shares and Zhang Shi Quan (張世權) holding 62.97%, 33.01% and 4.02% of the Company's shares respectively.

On 24 March 2010, the Company submitted application to CSRC for the transfer listing from the GEM of the Hong Kong Stock Exchange to the Main Board of the Hong Kong Stock Exchange. On 22 December 2010, the Company received approval letter from CSRC dated 16 December 2010, whereas the proposal of transfer listing of the Company's H Shares from the GEM of the Hong Kong Stock Exchange to the Main Board of the Hong Kong Stock Exchange was approved. The Company then submitted application to the Hong Kong Stock Exchange on 17 January 2011. On 9 March 2011, the Company's H Shares were approved to be listed and traded on the Main Board of the Hong Kong Stock Exchange.

On 3 July 2012, the Company received the approval regarding "Reply Relating to the Approval of the Initial Public Offering of Zhejiang Shibao Company Limited" (CSRC Approval [2012] No.898) by China Securities Regulatory Commission, the Company commenced the initial public offering of RMB-denominated ordinary shares (A Shares) on 2 November 2012, and was listed on the SME Board of Shenzhen Stock Exchange. The offer size is 15,000,000 shares with nominal value of RMB1 each. Following the issue, the total share capital of the Company is increased to RMB277,657,855.00, among which, Zhejiang Shibao Holding, H Shares, A Shares and Zhang Shi Quan (張世權) holding 59.57%, 31.23%, 5.40% and 3.80% of the Company's shares respectively. The capital increase of RMB15,000,000 was verified by BDO China Shu Lun Pan Certified Public Accountants LLP and a capital verification report Xin Kuai Shi Bao Zi [2012] No.310403 (信會師報字[2012]第310403號) was issued.

The business scope of the Company is: manufacture and sales of automotive components, sales of metal materials, electromechanical products and electronic products, sales of automobiles.

The Group's parent company is Zhejiang Shibao Holding Group Co., Ltd. which was registered in the PRC. The Group's ultimate holding parties are Zhang Shi Quan (張世權) and his family members, i.e. Zhang Bao Yi (張寶義), Tang Hao Hang (湯浩瀚), Zhang Lan Jun (張蘭君) and Zhang Shi Zhong (張世忠).

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### (1) BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises – General Standards (“企業會計準則—基本準則”) and its 38 items of specific accounting standards, application guidance issued thereafter, interpretations and other related stipulations (together, the “Accounting Standards for Business Enterprises”) (“企業會計準則”) issued by the Ministry of Finance of PRC in February 2006.

These financial statements are presented on the going concern basis.

The financial statements are prepared under the historical cost convention except for certain financial instruments. In case of impairment, the corresponding impairment provision shall be accrued based on the relevant regulations.

### (2) STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

These financial statements comply with the requirements of the Accounting Standards for Business Enterprises and fairly and completely reflect the financial positions of the Group and the Company as at 31 December 2012 and their operating results and cash flows for the year then ended.

### (3) ACCOUNTING YEAR

The accounting year of the Group is from 1 January to 31 December.

### (4) FUNCTIONAL CURRENCY

These financial statements are presented in Renminbi (“RMB”), which is the Company’s functional and presentation currency. All values are presented in RMB, except when otherwise indicated.

### (5) BUSINESS COMBINATION

Business combination represents a transaction or matter of combining two or more individual enterprises into one reporting entity. Business combination comprises business combination under common control and business combination not under common control.

#### Business combinations under common control

A business combination under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. In a business combination under common control, the party which obtains control of other combining enterprise(s) on the combination date is the merging party, the other combining enterprise(s) is (are) the merged party. The “combination date” refers to the date on which the merging party actually obtains control of the merged parties.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (5) BUSINESS COMBINATION *(continued)*

#### Business combinations under common control *(continued)*

The assets and liabilities that the merging party obtains in a business combination shall be measured on the basis of their carrying amounts in the merged parties on the date of combination. The difference between the carrying amount of the net assets which the merging party obtains and the carrying amount of the consideration which it pays (or the total par value of the shares issued) shall adjust the additional capital reserves. If the additional capital reserves are not sufficient to be offset, the retained earnings shall be adjusted.

#### Business combinations not under common control

A business combination not under common control is a business combination in which the combining enterprises are not ultimately controlled by the same party or parties both before and after the business combination. In a business combination not under common control, the party which obtains control of other combining enterprise(s) on the purchase date is the acquirer, other combining enterprise(s) is (are) the acquirees. The "acquisition date" refers to the date on which the acquirer actually obtains control of the acquirees.

The identifiable assets, liabilities or contingent liabilities under business combination not under common control shall be measured at fair value at the date of acquisition.

Any excess of the sum of the fair value of the consideration payable for a business combination and the fair value of the acquiree's equity held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is subsequently measured at cost less any accumulated impairment losses. If the acquirer's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the fair value of the consideration payable for a business combination and the fair value of the acquiree's equity held before the acquisition date, the fair value of the identifiable assets, liabilities or contingent liabilities as well as the fair value of the consideration payable for a business combination and the fair value of the acquiree's equity held before the acquisition date are reassessed, and after reassessment, any excess of the acquirer's interest in the fair value of the acquiree's identifiable net assets over the sum of the fair value of the consideration payable for a business combination and the fair value of the acquiree's equity held before the acquisition date is recognized as current profit and loss in the consolidated income statement.

### (6) CONSOLIDATED FINANCIAL STATEMENTS

The consolidation scope is determined based on the control, the consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. Subsidiaries represent entities controlled by the Company.

# NOTES TO THE FINANCIAL STATEMENTS

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(English Translation for Reference Only)

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (6) CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

When preparing the consolidated financial statements, same accounting year and accounting policies are applied to subsidiaries and the Company. All balance, transactions and unrealized gains and losses resulting from intercompany transactions and dividends within the Group are eliminated on consolidation in full.

Where the current loss assumed by the minority shareholders of a subsidiary exceeds the minority interests of beginning equity, the balance of minority interests shows as deficits. Any changes in the minority interests without losing its control is recognized as an equity transaction.

Where the Company combines a subsidiary during the reporting period through a business combination involving entities not under common control, the results and cash flows of the subsidiary are consolidated from the date of acquisition, being the date on which the Group obtains the control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, the identifiable assets, liabilities and contingent liabilities of the subsidiary are consolidated from the date that control commences, based on the fair value of those identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition.

Where the Company combines a subsidiary during the reporting period through a business combination involving entities under common control, the results and cash flows of the subsidiary are consolidated from the beginning of the period during which the combination occurs. In preparing the comparative consolidated financial statements, adjustments were made to relevant items in financial statements in previous periods as if the reporting entity formed after the consolidation had been in existence since the ultimate controlling party started to exercise effective control.

### (7) CASH AND CASH EQUIVALENTS

Cash represents cash on hand and bank deposits which can be used for payment at any time; cash equivalents represent short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (8) FOREIGN CURRENCY BUSINESS

The Group converts the amount of foreign currency transactions into its functional currency.

# NOTES TO THE FINANCIAL STATEMENTS

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(English Translation for Reference Only)

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (8) FOREIGN CURRENCY BUSINESS *(continued)*

Foreign currency transactions are initially recognized as amounts in functional currency using the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. The exchange differences arising from the above translation, except the ones relating to foreign currency borrowings for the acquisition, construction or production of assets eligible for the capitalization shall be dealt with according to the principle of borrowing cost capitalization, are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rate at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined, and the differences are taken to the income statement or other comprehensive income.

Cash flows in foreign currency are translated into RMB at the exchange rates ruling at the dates of the cash flows. Effect of foreign exchange rate fluctuation on cash is separately disclosed in consolidated cash flow statements.

### (9) FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Recognition and derecognition of financial assets

The Group recognizes a financial asset or a financial liability on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- (a) the rights to receive cash flows from the asset have expired;
- (b) the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

# NOTES TO THE FINANCIAL STATEMENTS

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(English Translation for Reference Only)

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (9) FINANCIAL INSTRUMENTS *(continued)*

#### Recognition and derecognition of financial assets *(continued)*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the income statement.

All regular way purchases and sales of financial assets are recognized or derecognized on the trade date, the day that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### Category and measurement of financial assets

Financial assets of the Group are categorized into the following categories upon initial recognition: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; available-for-sale financial assets; derivatives designated as effective hedging instruments. The Group determines the categorization of the financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value. The transaction costs of financial assets at fair value through profit or loss are charged to the income statement, while the transaction costs of other financial assets are recognized as part of the initial amount of assets.

The subsequent measurement of financial assets depends on their classification as follows:

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and those measured at fair value through profits and losses designated upon initial recognition. Financial assets are classified as held for trading if it satisfies one of the following conditions: the purpose to acquire such financial assets is to sell in the near term; belonging to part of identifiable combined financial instruments and objective evidence exists that it is acquired principally for the purpose of obtaining profit in the near term; derivatives, are also classified as held for trading unless they are designed as effective hedging instruments, financial guarantee agreement, or related to an equity instrument which has no quoted market price, its fair value cannot be measured reliably and settled through exchange of the equity instrument. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the consolidated income statement. Dividends or interest income derived from financial assets at fair value through profit or loss are recognized in the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

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(English Translation for Reference Only)

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (9) FINANCIAL INSTRUMENTS *(continued)*

#### Category and measurement of financial assets (continued)

##### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are subsequently measured at amortized cost using the effective interest rate method. Gains or losses arising from amortization or impairment are recognized in the income statement.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories. After initial recognition, such financial assets are measured at fair value. Its discount or premium is amortized using effective interest rate method and recognized as interest income or expense. Except for impairment loss and exchange differences of monetary financial assets denominated in foreign currency which are recognized in the income statement, changes in fair value of available-for-sale financial assets are recognized as other comprehensive income in the capital reserve until the investment is derecognized or there is an impairment, then the cumulative gain or loss will be included in the consolidated income statement. Interests and dividends earned are reported as interest income and dividend income, respectively and are recognized in the income statement.

#### Category and measurement of financial liabilities

Financial liabilities of the Group are categorized into the following categories upon initial recognition: financial liabilities at fair value through profit or loss; other financial liabilities; derivatives designated as effective hedging instruments. The Group determines the categorization of the financial liabilities at initial recognition. When financial liabilities are recognized initially, they are measured at fair value. The transaction costs of financial liabilities at fair value through profit or loss are charged to the income statement, while the transaction costs of other financial liabilities are recognized as part of the initial amount of liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

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(English Translation for Reference Only)

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (9) FINANCIAL INSTRUMENTS *(continued)*

#### Category and measurement of financial liabilities *(continued)*

The measurement of financial liabilities depends on their classification as follows:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit and loss. Financial liabilities are classified as held for trading if they satisfy one of the following conditions: they are acquired for the purpose of sale in the near term, belong to a part of identifiable combined financial instruments which are managed centrally and objective evidence exists that they are acquired principally for the purpose of obtaining profit in the near term; belong to derivatives, unless those are designated as effective hedging instruments, under financial guarantee agreements or related to equity instruments without quoted market price, its fair values of which cannot be measured reliably and settled through exchanges of the equity instruments. These financial liabilities are subsequently measured at fair value, and all the realized or unrealized gains or losses are recognized in the income statement.

#### *Other financial liabilities*

The financial liabilities are subsequently measured at amortized cost using effective interest method.

#### Fair value of financial instruments

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid price. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

#### Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, impairment loss will be provided. There is objective evidence that an impairment loss exists when the present value of the estimated future cash flows is adversely affected after initial recognition, and the amount can be measured reliably.

#### *Financial assets carried at amortized cost*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate, (i.e., the effective rate computed upon initial recognition) after taking into consideration of the value of the collaterals, if any. The amount of the loss is recognized in the income statement. In respect of floating interest rate, the current effective interest rate is used as the discount rate in calculating the present future cash flow.



# NOTES TO THE FINANCIAL STATEMENTS

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(English Translation for Reference Only)

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (9) FINANCIAL INSTRUMENTS *(continued)*

#### Impairment of financial assets *(continued)*

##### *Financial assets carried at amortized cost *(continued)**

Where impairment is assessed on an individual basis for individually significant financial assets, an impairment loss is recognized in the consolidated income statement when there is objective evidence that an impairment loss has been incurred. For individually insignificant financial assets, an impairment assessment is made collectively for financial assets which share similar credit risk characteristics. For the financial assets without impairment loss based on individual test (including individually significant or insignificant financial assets), an assessment is made collectively for financial assets which share similar credit risk characteristics. For financial assets with impairment loss recognized based on individual test basis, another assessment is not required to be made collectively for the financial assets which share similar credit risk characteristics.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

##### *Available-for-sale financial assets*

If there is objective evidence that an available-for-sale asset is impaired, accumulated losses arising from decreases in fair values will be removed from other comprehensive income and recognized in the profit or loss. Accumulated losses represent an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement.

Impairment loss on debt instruments can be reversed through the profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized.

##### *Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on a financial asset, an impairment loss is recognized in the income statement and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Recognized impairment losses are not reversed.

# NOTES TO THE FINANCIAL STATEMENTS

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(English Translation for Reference Only)

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (9) FINANCIAL INSTRUMENTS *(continued)*

#### Impairment of financial assets *(continued)*

#### Financial assets carried at cost *(continued)*

According to the Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investment, the above accounting principle should also apply to the long-term equity investment under cost method whose active market price and fair value cannot be reliably measured.

#### Transfers of financial assets

If the Group has transferred substantially all of the risks and rewards related to the ownership of a financial asset to the transferee, the Group derecognizes the financial asset. However, if it has substantially retained all of the risks and rewards related to the ownership of a financial asset, the Group continues recognizing the asset.

When the Group does not either transfer substantially or retain all of the risks and rewards related to the ownership of a financial asset, the Group treats it as follows, according to the individual circumstances: (i) if the Group relinquishes control over the financial asset, the Group derecognizes the financial asset; (ii) if the Group does not relinquish control over the financial asset, the Group, to the extent of its continuous involvement in the financial asset, recognizes it as a related financial asset and recognizes the relevant liability accordingly.

### (10) RECEIVABLES

#### Individually significant receivables

The Group recognizes the account receivables with an individual balance exceeding RMB100 million and other receivables as individually significant receivables.

The Group conducts an independent impairment test on the individually significant receivables to separately test financial assets that have never been impaired, including impairment tests conducted within a group of financial assets sharing similar credit risk features. Accounts receivable the impairment loss of which has been recognized are separately tested, excluding impairment tests conducted for a group of accounts receivable sharing similar credit risk features.

#### Receivables individually insignificant but to be greater risks after arrival at by credit risk features

In respect of accounts receivable that are individually insignificant and those that are significant but are not impaired upon individual testing, the Group classifies financial assets based on the similarity and relevancy of credit risk features. These credit risks usually reflect debtors' ability to settle all amounts that fall due based on the contracted terms of the assets, and are relevant to the estimated future cash flows of the inspected assets.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (10) RECEIVABLES *(continued)*

Receivables individually insignificant but to be greater risks after arrival at by credit risk features *(continued)*

When an impairment test is performed by means of a group, bad debt provision will be assessed and ascertained according to the structure of the group of accounts receivable and similar credit risk features (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience of losses and losses that are expected to incur in the group of accounts receivable.

### (11) INVENTORIES

Inventories include raw materials, work-in-progress, finished goods and low-value consumables.

Inventories are stated at cost initially. Inventories costs comprise purchase costs, processing costs and other costs. The actual cost of delivery of inventories is determined by weighted average method. Low-value consumables are amortized using the one-off write-off method.

The Group adopts inventory perpetual physical count method.

On balance sheet date, inventories are stated at the lower of cost and net realisable value, the excess of the cost over the net realisable value of the inventories is recognized as a provision for diminution in the value of inventories in the income statement. If the factor for diminution in the value of inventories disappears and the net realisable value of inventories is higher than its carrying amount, the provision previously recognized can be reversed in the consolidated income statement to the extent of the previously recognized provision amount.

Net realisable value is based on the estimated selling price in the ordinary course of business, less any estimated costs to completion and estimated costs necessary to make the sale and relevant taxes. Inventories provision is made according to category of inventories with respect of raw materials and finished goods.

### (12) LONG-TERM EQUITY INVESTMENTS

Long-term equity investments comprise equity investments in subsidiaries and associates as well as other long-term equity investments where the Group does not have control, joint control or significant influence over the investees, and which are not quoted in an active market and whose fair value cannot be reliably measured.

# NOTES TO THE FINANCIAL STATEMENTS

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(English Translation for Reference Only)

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (12) LONG-TERM EQUITY INVESTMENTS *(continued)*

The initial recognition of long-term equity investment is measured at initial investment cost upon acquisition. For business combination under common control, the initial investment cost is the share of the investee's equity. For business combination not under common control, the initial investment cost is the combination cost. The combination cost comprises the sum of the assets provided by the acquirer, the liability incurred or taken and the fair value of the equity securities issued. For the long-term equity investment acquired by a way other than business combination, the initial investment cost is recognized as follows: for a long-term equity investment acquired by cash payment, the initial investment cost shall be the actual purchase price, and those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment. For a long-term equity investment acquired by the issue of equity securities, the initial investment cost shall be the fair value of the securities issued. For the long-term equity investment made by investors, the initial investment cost is determined based on the amount as agreed in the investment contract or agreement, unless the amount agreed does not represent the fair value.

Other long-term equity investments where the Group does not have control, joint control or significant influence over the investee, not quoted in an active market and whose fair value cannot be reliably measured, are accounted for using the cost method. Long-term equity investments where the Company has the control over the investees are accounted for using the cost method when preparing the financial statements of the Company. Control refers to the right to decide on the financial and operating policies of a company and to obtain profit from operating earnings of the company.

When cost method is used, long-term equity investments are measured at initial investment costs. Cash dividends or profit appropriation declared by the investees are recognized as investment income in the current period, except for the declared but unpaid parts of the cash dividends or profit appropriation which were included in the cash payment for acquiring the investment. Impairment is tested for long-term investments in accordance with the relevant asset impairment policies.

When the Group has joint control or significant influence over the investees, the Group's interests in these entities are accounted for using equity accounting method. Joint control represents the contractually agreement in sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

When equity accounting method is used, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in the consolidated income statement for the current period and the cost of the long-term equity investment is adjusted accordingly.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (12) LONG-TERM EQUITY INVESTMENTS *(continued)*

The Group's share of net profit or loss of the investee is determined based on the fair value of identifiable assets of investee on the acquisition date and the Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealized losses provide evidence of an impairment of the asset. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has an obligation to assume additional losses. For changes in owner's equity of the investee other than those arising from its net profit or loss, the Group records directly in equity its share of net book value changes.

When long-term equity investment is disposed, the differences between carrying amount and actual consideration received are recognized in the income statement. If long-term equity investments are accounted for using equity accounting, on disposal, the amounts previously recognized in equity and disposed portion are transferred to the profit or loss.

For the details of impairment test and provision for long-term equity investments related to subsidiaries, jointly-controlled entities and associates, please refer to Note 2 (22). For details of impairment test and provision for other long-term equity investments without quoted price in the active market and fair values of which cannot be measured reliably, please refer to Note 2 (9).

### (13) FIXED ASSETS

Fixed assets shall be recognized if, and only if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For subsequent expenditures of fixed assets, if the recognition conditions are satisfied, they are recognized as cost of fixed assets and the carrying amount of replaced components is derecognized. Otherwise, it is normally charged to the consolidated income statement in the period in which it is incurred.

Fixed assets are measured at cost initially, the cost of fixed assets comprises purchase price, including relevant taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

### (13) FIXED ASSETS (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of fixed assets to its residual value over its estimated useful life. The estimated useful lives, estimated residual value and annual depreciation rates of fixed assets are as follows:

	Useful lives	Estimated residual value	Annual depreciation rates
Buildings	10–35 years	5%	2.7%–9.5%
Machinery and equipment	10 years	5%	9.5%
Motor vehicles	5 years	5%	19.0%
Office equipment and others	5 years	5%	19.0%

Residual value, useful lives and depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

For details of impairment test and provision methods of fixed assets, please refer to Note 2 (22).

### (14) CONSTRUCTION IN PROGRESS

The cost of construction in progress is determined by actual construction expenditures, which comprise the direct expenditures of construction, capitalized borrowing costs before the construction is ready for use and other relevant expenses.

Construction in progress is reclassified to the appropriate category of fixed assets when completed and are ready for use.

For details of impairment test and provision methods of construction in progress, please refer to Note 2 (22).

### (15) BORROWING COSTS

Borrowing costs refer to the interest on or other cost of loan borrowed by the Group, including interest, amortization of discount or premium, auxiliary expenses and exchange difference from loans in foreign currency, etc..

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of the assets. Except for the above other borrowing costs are recognized as financial expenses in the consolidated income statement when incurred.

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (15) BORROWING COSTS *(continued)*

Borrowing costs are capitalized when satisfying all of the following conditions:

- (a) Capital expenditure were incurred;
- (b) Borrowing costs were incurred;
- (c) Acquisition or construction activities for the assets to be ready for use or sale have started.

The capitalisation of such borrowing costs ceases when the qualifying assets are substantially ready for their intended use or sale, subsequent borrowing costs are charged to the income statement.

In the capitalisation period, the amount of interest to be capitalized in each accounting period is determined as follows:

- (a) where funds are borrowed specifically for the construction of a qualifying asset, the amount of interest to be capitalized is the interest expense incurred during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset;
- (b) where funds are borrowed generally and used for the construction of a qualifying asset, the amount of interest to be capitalized on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditure on the asset over the above amounts of specific borrowings.

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs is suspended when the acquisition or construction activities are interrupted abnormally and the interruption lasts over three months and the borrowing costs are recognized in the income statement until the construction or production activities resume.

### (16) INTANGIBLE ASSETS

The intangible assets are recognized and initially measured at cost when it is probably that the related economic benefits will flow to the Group the cost of which can be reliably measured. The intangible assets acquired in the business combination the fair value of which can be reliably measured are separately recognized as intangible assets at fair value.

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (16) INTANGIBLE ASSETS *(continued)*

The useful lives of intangible assets are determined on the basis of useful economic life. If it is impossible to forecast the useful economic life, it is regarded as intangible asset with indefinite useful lives.

The useful lives of various intangible assets are presented as follows:

	Useful lives
Land use rights	50 years
Patented technology	10 years
Software	5 years
Non-patented technology	5–10 years

The land use rights acquired by the Group are generally accounted for as intangible assets. Or self development and construction of plant and buildings, the related land use rights and buildings are accounted for as intangible assets or fixed assets respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be reasonably apportioned.

An intangible asset with a finite useful life is amortized using the straight line method over its useful life. The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date and are adjusted when necessary.

The Group categorizes the research and development costs into research costs and development costs. All research costs are charged to the consolidated income statement as incurred. Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

For details of impairment test and provision methods of intangible assets, please refer to Note 2 (22).



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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (17) PROVISION

Except for the contingent consideration and contingent liabilities under business combination, a provision is recognized when:

- (a) a present obligation has arisen as a result of a past event;
- (b) it is probable that a future outflow of resources will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

Provisions are initially measured based on the best estimate of the expenditure for performing the current obligation, taking into account the related risks, uncertainties and time value factor. At each balance sheet date, the amount of provisions is reassessed and if there is solid evidence that the carrying value cannot reflect the best estimate, the provisions should be adjusted based on the best estimate.

### (18) REVENUE

Revenue is recognized when it is probable that the economic benefit will flow to the Group, the revenue can be reliably measured and the following conditions are satisfied.

#### Revenue from the sales of goods

Revenue from sales of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and related costs incurred or to be incurred can be measured reliably. Revenue from sales of goods is determined according to amounts stipulated in contracts or agreements received or receivable from buyers, unless such amounts are deemed unfair. The receipt of amounts stipulated in contracts or agreements is recognized on a deferred basis. Those with a financing nature are measured at the fair value of amounts stipulated in contracts or agreements.

#### Interest income

Interest income is recognized on a time proportion basis and the applicable effective interest rate.

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (19) GOVERNMENT GRANT

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions can be complied with. For a government grant in the form of monetary assets, the grant is measured at the amount received or receivable. For a government grant in the form of non-monetary assets, the grant is measured at fair value. If the fair value could not be reasonably determined, the government grant is measured based on the nominal value. Where the grant relates to an income item, it is recognized as deferred income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant is for compensation of expenses or losses incurred, the grant is recognized in the current period's consolidated income statement. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments. Government grants measured based on the nominal value are recognized in the consolidated income statement directly.

### (20) INCOME TAX

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated income statement as a tax expense or income, except that it is a goodwill adjustment arising from business combination, or items directly recognized in equity, in which case they are recognized in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided using the liability method, on all temporary difference at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- (a) where the taxable temporary difference arises from the initial recognition of goodwill, or initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, investments in jointly-controlled entities and investments in associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (20) INCOME TAX *(continued)*

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized, except:

- (a) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, investments in jointly-controlled entities and investments in associates, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group reassesses unrecognized deferred tax assets at each balance sheet date and recognizes deferred tax asset to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Where the taxable entity has a statutory right to set off current tax assets against current tax liabilities, and the deferred tax is related to the same taxable entity and the same tax authority, the net deferred tax assets or deferred tax liabilities will be presented in the financial statements.

### (21) LEASE

Leases where substantially all the risks and rewards of ownership of assets were transferred to the lessee are accounted for as financial leases, otherwise as operating leases.

#### As a lessee under operating lease

Rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms. Contingent rentals are charged to consolidated income statement when they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (22) IMPAIRMENT OF ASSETS

The impairment of an asset other than inventories, deferred income tax and financial assets is determined as follows:

The Group assesses if there is any indicator that an asset may be impaired at the balance date. If there is any indicator that an asset may be impaired, the Group will assess its recoverable amount and perform impairment test. Goodwill recognized from business combination and intangible assets with indefinite useful lives are tested at least annually for impairment, irrespective of whether there is any indication that the asset may be impaired. Asset impairment test is conducted annually for intangible assets which are not yet available for use.

An asset's recoverable amount is the higher of the asset's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are mainly independent of those from other assets or groups of assets, in which case the recoverable amount is determined for cash-generating unit to which the asset belongs.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises. A provision for impairment loss of the asset is recognized accordingly.

For the purpose of impairment testing of goodwill, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, which are expected to benefit from the synergies of the combination, and is within the business segment of the Group.

The Group first measures the recoverable amount of the cash-generating unit on groups of cash-generating units without allocating goodwill, and if it is less than the carrying amount, there is an indication that impairment may exist. The recoverable amount of cash-generating unit or groups of cash-generating units with allocated goodwill is compared with its carrying amount. If the impairment loss is recognized, it is first deducted from the carrying amount of goodwill allocated to the asset group or groups of asset group, and then deducted from the carrying amount of the remaining assets of the asset group or groups of asset group executions goodwill on a pro rata basis.

An impairment loss recognized for goodwill is not reversed in subsequent periods.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (23) EMPLOYEE BENEFITS

Employee benefits are all forms of considerations given and other related expenditure incurred in exchange for services rendered by employees. Employee benefits are recognized as a liability in the period which the associated services are rendered by employees. The amount of the employee benefits should be discounted to its present value if the amount is material and is due over one year after the balance sheet date.

All employees of the Group are covered by the social insurances administrated by the local government, including pension, medical care and unemployment insurance as well as housing fund, and the contributions are recognized as cost of assets or charged to income statement.

Termination benefits are payable whenever an employee's employment is voluntarily terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises retirement benefits in the income statement when it is demonstrably committed to terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal.

### (24) PROFIT DISTRIBUTION

The cash dividends of the Company are recognized as a liability upon the approval at the shareholders' general meeting.

### (25) RELATED PARTIES

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control, joint control or significant influence from another party, they are considered to be related parties.

### (26) SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities on the balance sheet date. However, uncertainty about those estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (26) SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

#### Judgments

In the course of applying the accounting policies of the Group, the Management made judgments on the amounts recognized as follows in the financial statements where the areas involved were significant:

#### *Recognition of deferred tax assets*

Deferred tax assets are recognized by the Group for all deductible temporary differences arising between the carrying amounts and their basis of taxation for assets and liabilities. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

#### Estimates with uncertainty

On the balance sheet date, the following uncertainties about those key assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future.

#### *Impairment of available-for-sale financial assets*

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, the Management makes assumptions about the decline in value to determine whether there is an impairment that should be recognized in the income statement.

#### *Fair value of unlisted equity investments*

The valuation of unlisted equity investments represents the expected future cash flows discounted at the prevailing discount rate of other financial instruments with similar contract terms and risk features. It requires the Group to estimate the expected future cash flows, credit risks, fluctuation and discount rates, so the valuation is uncertain.

#### *Deferred tax assets*

Deferred tax assets are recognized for all unused income tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

### (26) SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

#### Estimates with uncertainty *(continued)*

##### *Provision for doubtful debt*

The Group adopts the allowance method to account for bad debt loss. The Group conducts impairment tests for the individually significant or insignificant receivables but with relatively large risk after combination in line with the credit risk characteristics. If there is objective evidence indicating that the accounts receivable is impaired, then impairment loss will be recognized and provision for bad debts will be made according to the difference when the present value of future cash flow is fewer than its carrying amounts. For other receivables, the management divides the amount together with other receivables which are unimpaired through separately test of impairment into certain portfolio according to similar credit risk characteristics, then determines the impairment loss in some proportion to the balance at the balance sheet date for provision of bad debts.

##### *Provision for inventory obsolescence*

According to the Group's accounting policy of inventories, which are stated at the lower of cost and net realisable value, provision for inventory impairment is made for obsolete and slow moving items, when its cost is higher than its net realisable value. The Group will reassess whether specific inventory is obsolete and slow moving, or its net realisable is lower than its cost on the balance sheet date. The difference between the reassess results and the current estimates will have an effect on the carry amount of inventories for the period of change.

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## 3. TAXATION

### (1) MAJOR TAXES AND TAX RATES

- |  |   |
|--|---|
| Value added tax                        | - The Group's taxable revenue is subject to value added tax ("VAT") at tax rates of 17%. The VAT payable is determined by the output VAT net of deductible input VAT of the period.                   |
| Urban maintenance and construction tax | - The Group pays 5-7% of turnover tax as urban maintenance and construction tax.  |
| Education surcharge                    | - The Group pays 3% of turnover tax as education surcharge.   |
| Individual income tax                  | - The Group withholds individual income tax on their behalf for the staff costs paid to the individuals.  |
| Corporate income tax                   | - Except for the following entities comprising the Group are entitled for the income tax concession policies, the enterprise income tax was payable by other entities on 25% of their taxable income. |

### (2) TAX CONCESSION AND APPROVAL DOCUMENTS

According to the Document (Ji Ke Ban Zi [2009] No.115) issued by the Department of Science and Technology, the Department of Finance, the Bureau of State Taxation and the Bureau of Local Taxation of Jilin province, Siping Steering Gear Co., Ltd., a subsidiary of the Company, was recognized as a high-tech enterprise, and was subject to an enterprise income tax rate of 15% from 2009 to 2011. In 2012, Siping Steering Gear Co., Ltd. was re-accepted for the qualifications as a high-tech enterprise and is subjected to an income tax rate of 15% from 2012 to 2014.

According to the Document (Zhe Ke Fa Gao [2008] No.250) issued by the Department of Science and Technology, the Department of Finance, the Bureau of State Taxation and the Bureau of Local Taxation of Zhejiang province, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd., a subsidiary of the Company, was recognized as a high-tech enterprise, and was subject to an enterprise income tax rate of 15% from 2008 to 2010. In 2011, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. was re-accepted for the qualifications as a high-tech enterprise and is subjected to an income tax rate of 15% from 2011 to 2013.



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## 4. CONSOLIDATION SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

### (1) PARTICULARS OF SUBSIDIARIES

Name of subsidiaries	Place of registration	Business scope	Representative	Registered capital '000	Investment amount '000	At 31 December 2012		At 31 December 2011		Code of entity
						Direct (%)	Indirect (%)	Direct (%)	Indirect (%)	
Siping Steering Gear Co., Ltd ("Siping Steering")	Siping City	Manufacture of power steering gears, steering knuckles for sedans, and automotive parts and components	Zhang Shi Quan	11,000	8,250	75	-	75	-	70221708-7
Hangzhou Shibao Auto Steering Gear Co., Ltd ("Hangzhou Shibao")	Hangzhou City (note 1)	Manufacture of steering gear and automotive parts and components	Zhang Shi Quan	40,000	40,000	100	-	100	-	25392555-4
Hangzhou New Shibao Electric Power Steering Co., Ltd. ("Hangzhou New Shibao")	Hangzhou City (note 2)	Sales of steering gears components and other components for automobiles	Zhang Bao Yi	60,000	42,000	70	-	70	-	76823319-4
Jilin Shibao Machinery Manufacturing Co., Ltd. ("Jilin Shibao")	Siping City	Processing of stamping machinery, manufacture and sales of automotive parts and components, sales of metal materials, electromechanical products and electronic products, as well as casting and forging	Tang Hao Han	30,000	30,000	100	-	100	-	67730447-9
Beijing Autonics Technology Co., Ltd. ("Beijing Autonics")	Beijing City (note 3)	Technology development	Zhang Bao Yi	10,000	7,000	70	-	70	-	77861581-5

Note:

- (1) On 11 March 2011, the Company acquired the 1% interest in Hangzhou Shibao from Ms. Zhang Hai Qin, the spouse of Zhang Shi Quan.
- (2) On 12 December 2010, the Company increased its investment in Hangzhou New Shibao, the registered capital of which increased from RMB40 million to RMB60 million, representing an increase of RMB20 million. Among which, the Company increased its investment by RMB2 million to RMB42 million, representing 70% of the revised registered capital, and Mr. Wang Chao Jiu invested in Hangzhou New Shibao with non-patented proprietary technology valued at RMB18 million, representing 30% of the revised registered capital.
- (3) Beijing Autonics was the acquiree of the Group in 2010, not involving enterprises under common control.

# NOTES TO THE FINANCIAL STATEMENTS

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

### (1) CASH ON HAND AND AT BANK

	31 December 2012			31 December 2011		
	Original currency	Conversion rate	Equivalent RMB	Original currency	Conversion rate	Equivalent RMB
Cash						
– RMB	80,461.14	1.00	80,461.14	153,654.33	1.00	153,654.33
Bank deposits						
– RMB	76,662,646.47	1.00	76,662,646.47	40,527,148.18	1.00	40,527,148.18
– US\$	1,848.97	6.29	11,642.47	1,612.91	7.32	11,802.04
– HK\$	22,139.25	0.81	18,039.06	23,339.25	0.81	19,016.82
– CHF	55.41	6.85	378.00	55.41	6.49	359.36
Other monetary funds						
– RMB	<u>1,770,509.77</u>	1.00	<u>1,770,509.77</u>	<u>2,522,130.61</u>	1.00	<u>2,522,130.61</u>
Total cash on hand and at bank			<u>78,543,676.91</u>			<u>43,234,111.34</u>
Less: Restricted cash on hand and at bank (note)			<u>1,770,509.77</u>			<u>2,522,130.61</u>
Cash and cash equivalents			<u>76,773,167.14</u>			<u>40,711,980.73</u>

Note: As at 31 December 2012 and 31 December 2011, the restricted cash on hand and at bank of the Group refers to the deposits for issuance of bank bills and letter of credit.

# NOTES TO THE FINANCIAL STATEMENTS

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (1) CASH ON HAND AND AT BANK (continued)

As at 31 December 2012 and 2011, details of the monetary funds of the Group placed in overseas banks areas follows:

	31 December 2012	31 December 2011
Bank deposits – HK\$	<u>22,139.25</u>	<u>23,339.25</u>
Converted into RMB	<u><u>18,039.06</u></u>	<u><u>19,016.82</u></u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods between seven days and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

### (2) NOTES RECEIVABLE

	31 December 2012	31 December 2011
Banker's acceptances	<u><u>117,298,613.04</u></u>	<u><u>137,538,266.04</u></u>

As at 31 December 2012, the top five largest notes receivable pledged were as follows:

Issuer	Date of issuance	Due date	Amount
Foshan City Xieli Automobile Sales & Service Co., Ltd. (佛山市協力汽車銷售服務有限公司)	23 October 2012	23 April 2013	3,218,556.00
Tianjin Automotive Industry Sales Heilongjiang Co., Ltd. (天津汽車工業銷售黑龍江有限公司)	2 November 2012	2 May 2013	2,761,650.00
Linyi Orient Automobile Trading Co., Ltd. (臨沂市東方汽車貿易有限公司)	24 August 2012	24 February 2013	1,959,400.00
Chongqing Wanshixing Automobile Sales & Service Co., Ltd. (重慶萬事興汽車銷售服務有限公司)	24 September 2012	19 January 2013	1,583,400.00
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	21 September 2012	21 March 2013	1,000,000.00
			<u><u>10,523,006.00</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (2) NOTES RECEIVABLE (continued)

As at 31 December 2011, the top five largest notes receivable pledged were as follows:

Issuer	Date of issuance	Due date	Amount
Jiefang Commercial Vehicle Mengcheng Sales and Service Center (解放商用汽車蒙城銷售服務中心)	25 October 2011	25 March 2012	2,956,590.00
Lanzhou Yafei Car (HTC) Chain (蘭州亞飛汽車(宏達)連鎖店)	29 August 2011	29 February 2012	2,250,000.00
Zhejiang Geely Automobile Co., Ltd. (浙江吉利汽車有限公司)	2 December 2011	2 June 2012	2,000,000.00
Henan HICHANCE Automobile Trading Co., Ltd. (河南海川汽車貿易有限公司)	2 August 2011	2 February 2012	1,800,000.00
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	18 August 2011	18 February 2012	1,000,000.00
			10,006,590.00

As at 31 December 2012, the top five largest notes receivable that were not matured but had been endorsed to other parties were as follows:

Issuer	Date of issuance	Due date	Amount
Anhui Chery Automobile Sales Co., Ltd. (安徽奇瑞汽車銷售有限公司)	7 August 2012	31 January 2013	2,000,000.00
Wuhu Furui Automobile Sales Co., Ltd. (蕪湖福瑞汽車銷售有限公司)	9 October 2012	9 April 2013	1,500,000.00
Guangxi Fuda Automotive Co., Ltd. (廣西福達汽車有限公司)	14 November 2012	14 May 2013	1,100,000.00
Jiangxi Creators Navigator Technology Co., Ltd. (江西創想領航科技有限公司)	22 August 2012	22 February 2013	1,000,000.00
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	21 September 2012	21 March 2013	1,000,000.00
			6,600,000.00

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (2) NOTES RECEIVABLE *(continued)*

As at 31 December 2011, the top five largest notes receivable that were not matured but had been endorsed to other parties were as follows:

Issuer	Date of issuance	Due date	Amount
Qingdao Jialian Engineering Equipment Co., Ltd. (青島佳聯工程設備有限公司)	27 July 2011	27 January 2012	3,500,000.00
Kalama Clothing Qingdao Co., Ltd. (卡拉瑪服裝青島有限公司)	22 August 2011	21 February 2012	2,000,000.00
Chery Automobile Co., Ltd. (奇瑞汽車股份有限公司)	9 October 2011	9 April 2012	2,000,000.00
China Construction Seventh Engineering Division No. 3 Construction Co., Ltd. (中建七局第三建築有限公司)	12 October 2011	12 April 2012	2,000,000.00
Linyi Mengshan Grease Food Co., Ltd. (臨沂市蒙山油脂食品有限公司)	27 September 2011	26 March 2012	1,500,000.00
			11,000,000.00

As at 31 December 2012 and 31 December 2011, the Group had no notes receivable converted to accounts receivables, because of the drawer's inability to perform.

As at 31 December 2012, notes receivable with a carrying value of RMB32,149,000.00 have been endorsed to other parties, but not yet expired (31 December 2011: RMB43,710,760.44).

As at 31 December 2012, notes receivable with a carrying value of RMB11,523,006.00 have been pledged to obtain notes payable (31 December 2011: RMB11,006,590.00).

As at 31 December 2012, no banker's acceptances have been discounted to obtain short-term loans (31 December 2011: RMB4,079,832.00).

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (3) ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable is as follows:

	31 December 2012	31 December 2011
Within 1 year	282,502,420.92	199,521,502.26
1–2 years	1,476,642.22	3,459,272.27
2–3 years	1,678,563.32	550,022.61
Over 3 years	<u>1,005,001.22</u>	<u>2,378,172.51</u>
	286,662,627.68	205,908,969.65
Less: Provision for impairment	<u>(874,621.28)</u>	<u>(2,290,074.23)</u>
	<u><u>285,788,006.40</u></u>	<u><u>203,618,895.42</u></u>

The movements in provision for impairment of accounts receivable are as follow:

	At the beginning of year	Provision during the year	Decrease during the year		At the end of year
			Reversal	Write-off	
2012	<u>2,290,074.23</u>	<u>–</u>	<u>(1,413,112.92)</u>	<u>(2,340.03)</u>	<u>874,621.28</u>
2011	<u>2,379,833.69</u>	<u>105,350.44</u>	<u>(195,109.90)</u>	<u>–</u>	<u>2,290,074.23</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (3) ACCOUNTS RECEIVABLE *(continued)*

Analysis of accounts receivable by categories is as follows:

	31 December 2012			
	Carrying balance		Bad debt provision	
	Amount	(%)	Amount	(%)
Individually significant balance	262,419,682.48	91.54	–	–
Individually insignificant but significant based on credit risk characteristics	2,534,021.64	0.88	874,621.28	34.52
Other insignificant balances	21,708,923.56	7.58	–	–
	<u>286,662,627.68</u>	<u>100.00</u>	<u>874,621.28</u>	

	31 December 2011			
	Carrying balance		Bad debt provision	
	Amount	(%)	Amount	(%)
Individually significant balance	190,367,370.40	92.45	1,414,779.55	0.74
Individually insignificant but significant based on credit risk characteristics	2,337,424.41	1.14	875,294.68	37.45
Other insignificant balances	13,204,174.84	6.41	–	–
	<u>205,908,969.65</u>	<u>100.00</u>	<u>2,290,074.23</u>	

Individually insignificant but significant based on credit risk characteristics mainly refers to the individually insignificant receivables with long ageing. In addition, the Group conducts an independent impairment test on the individually significant receivables to separately test financial assets that have never been impaired, including impairment tests conducted within a group of financial assets sharing similar credit risk features. Accounts receivable, the impairment loss of which has been recognized are separately tested, excluding impairment tests conducted for the above group.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (3) ACCOUNTS RECEIVABLE (continued)

In 2012, the particulars of the reversed and recovered significant accounts receivable are as follows:

	Reasons for being reversed or recovered	Basis for determining the original bad debt provision	Accumulate accrual bad debt provision before being reversed or recovered	Amounts being reversed or recovered
FAW HARBIN Light-duty Automobile Co.,Ltd	Remaining balance recovered	Unrecovered for more than 3 years, and no business relations maintained	1,200,000.00	1,200,000.00

In 2011, no significant accounts receivable were reversed or recovered.

Accounts receivable write-off instructions: in 2012 and 2011, the Group did not write off any significant accounts receivable.

As at 31 December 2012 and 31 December 2011, the Group did not hold accounts receivable for shareholding units with 5% (inclusive) or more of the voting rights of the Company.

As at 31 December 2012, the five largest accounts receivable are as follows:

	Relationship with the Group	Amount	Ageing	Percentage of total accounts receivable (%)
FAW Jiefang Qingdao Automobile Co., Ltd	Third party customer	53,552,471.18	Within 1 year	18.68
FAW Car Co., Ltd.	Third party customer	40,733,182.33	Within 1 year	14.21
Wuhu Sterling Steering System Co., Ltd.	Associate	26,566,905.16	Within 1 year	9.27
Dongfeng Liuzhou Motor Co., Ltd.	Third party customer	18,721,427.47	Within 1 year	6.53
Tianjin FAW XIALI Automobile Co., Ltd.	Third party customer	11,943,000.89	Within 1 year	4.17
		<u>151,516,987.03</u>		<u>52.86</u>



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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (3) ACCOUNTS RECEIVABLE (continued)

As at 31 December 2011, the five largest accounts receivable are as follows:

	Relationship with the Group	Amount	Ageing	Percentage of total accounts receivable (%)
FAW Jiefang Qingdao Automobile Co., Ltd	Third party customer	46,421,191.81	Within 1 year	22.54
FAW Car Co., Ltd.	Third party customer	31,329,970.69	Within 1 year	15.22
Wuhu Sterling Steering System Co., Ltd.	Associate	25,391,425.25	Within 1 year	12.33
Shanghai Dintech International Corp. Ltd.	Third party customer	22,192,872.00	Within 1 year	10.78
Dongfeng Liuzhou Motor Co., Ltd.	Third party customer	5,607,613.56	Within 1 year	2.72
		<u>130,943,073.31</u>		<u>63.59</u>

As at 31 December 2012 and 31 December 2011, an amount due from a related party is as follows:

	31 December 2012	31 December 2011
Wuhu Sterling Steering System Co., Ltd.	<u>26,566,905.16</u>	<u>25,391,425.25</u>

On 9 October 2011, Zhejiang Shibao Company Limited undertook the domestic factoring of recourse rights with the Yi Wu branch of ICBC, pledged by its accounts receivable, so as to obtain a loan of RMB30,000,000.00.

### (4) PREPAYMENTS

	31 December 2012		31 December 2011	
	Balance	(%)	Balance	(%)
Within 1 year	6,429,311.52	85.81	6,104,440.66	96.06
1-2 years	812,697.57	10.85	250,511.95	3.94
2-3 years	250,511.95	3.34	-	-
	<u>7,492,521.04</u>	<u>100.00</u>	<u>6,354,952.61</u>	<u>100.00</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (4) PREPAYMENTS (continued)

As at 31 December 2012, the five largest prepayments are as follows:

	Relationship with the Group	Prepayment Amount	time	Reasons for outstanding
Benxi City Xingsheng Casting Co., Ltd.	Third party	1,555,000.00	Within 1 year	Prepayment for materials unsettled
Yangzhong City Huari Plastic Appliance Factory	Third party	1,236,851.19	Within 1 year	Prepayment for materials unsettled
Jilin Province Nongdian Co., Ltd	Third party	1,091,134.02	Within 1 year	Prepayment for electricity bill unsettled
Sinopec Zhejiang Hangzhou Sub-company	Third party	351,255.67	Within 1 year	Prepayment for gas bill unsettled
Hangzhou Liwei Computer Machinery Co., Ltd	Third party	299,700.00	Within 1 year	Prepayment for parts unsettled
		<u>4,533,940.88</u>		

As at 31 December 2011, the five largest prepayments are as follows:

	Relationship with the Group	Prepayment Amount	time	Reasons for outstanding
Hang zhou customs of PRC	Third party	1,770,671.42	Within 1 year	Tariff margin unsettled
Benxi City Juxinda Machinery Manufacturing Co., Ltd.	Third party	939,040.00	Within 1 year	Prepayment for materials unsettled
Siping City Dongda Industry and Trade Co., Ltd.	Third party	650,901.50	Within 1 year	Prepayment for processing charge unsettled
Zhejiang Yuantong Auto Group Co., Ltd.	Third party	344,600.00	Within 1 year	Prepayment for materials unsettled
GEBR.SAACKR GMBH & CO.KG	Third party	329,595.24	Within 1 year	Prepayment for materials unsettled
		<u>4,034,808.16</u>		

As at 31 December 2012 and 31 December 2011, the Group did not hold any prepayment for shareholding units with 5% (inclusive) or more of the voting rights of the Company.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (5) OTHER RECEIVABLES

Ageing analysis of other receivables is as follows:

	31 December 2012	31 December 2011
Within 1 year	5,185,507.49	6,483,059.12
1–2 years	3,480,863.13	2,473,963.40
2–3 years	97,400.00	130,159.60
Over 3 years	<u>94,467.26</u>	<u>129,184.86</u>
	<b>8,858,237.88</b>	<b>9,216,366.98</b>
Less: bad debt provision for other receivables	<u>–</u>	<u>–</u>
	<b><u>8,858,237.88</u></b>	<b><u>9,216,366.98</u></b>

Analysis for other receivables by categories is as follows:

	31 December 2012			
	Carrying balance		Bad debt provision	
	Amount	(%)	Amount	(%)
Individually significant balance	5,474,396.91	61.80	–	–
Individually insignificant but significant based on credit risk characteristics	922,730.39	10.42	–	–
Other insignificant other receivables	<u>2,461,110.58</u>	<u>27.78</u>	<u>–</u>	<u>–</u>
	<b><u>8,858,237.88</u></b>	<b><u>100.00</u></b>	<b><u>–</u></b>	<b><u>–</u></b>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (5) OTHER RECEIVABLES (continued)

	31 December 2011			
	Carrying balance		Bad debt provision	
	Amount	(%)	Amount	(%)
Individually significant balance	5,864,256.76	63.63	–	–
Individually insignificant but significant based on credit risk characteristics	1,203,307.86	13.06	–	–
Other insignificant other receivables	2,148,802.36	23.31	–	–
	<u>9,216,366.98</u>	<u>100.00</u>	<u>–</u>	

Individually insignificant but significant based on credit risk characteristics mainly refers to the individually insignificant receivables with long ageing. In addition, the Group conducts an independent impairment test on the individually significant receivables to separately test financial assets that have never been impaired, including impairment tests conducted within a group of financial assets sharing similar credit risk features. Accounts receivable, the impairment loss of which has been recognized are separately tested, excluding impairment tests conducted for the above group.

In 2012 and 2011, the Group did not have any other receivables written off.

As at 31 December 2012 and 31 December 2011, the Group did not hold other receivables for shareholding units with 5% (inclusive) or more of the voting rights of the Company.

In the opinion of the management of the Company, as at 31 December 2011 and 31 December 2010, no evidence implied that other receivables have been impaired, so there is no need to make any impairment provision.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (5) OTHER RECEIVABLES (continued)

As at 31 December 2012, the five largest other receivables are as follows:

	Amount	Ageing	Percentage of total other receivables(%)
Management Committee of Siping Tiedong Economic Development Zone	4,400,000.00		49.67
Among: provisional borrowings	1,000,000.00	Within 1 year	11.29
provisional borrowings	3,400,000.00	Within 2 years	38.38
Mingjie Plastic Products Co., Ltd.	1,074,396.91	Within 1 year	12.13
Zhang Liang	874,031.25	Within 1 year	9.87
Siping City Dongda Industry and Trand Co., Ltd.	650,000.00	Within 1 year	7.34
Wang Gang	143,813.17	Within 1 year	1.62
	<u>7,142,241.33</u>		<u>80.63</u>

As at 31 December 2011, the five largest other receivables are as follows:

	Amount	Ageing	Percentage of total other receivables(%)
Management Committee of Siping Tiedong Economic Development Zone	4,430,000.00		48.07
Among: provisional borrowings	900,000.00	Within 2 years	9.77
provisional borrowings	3,530,000.00	Within 1 year	38.30
Listing expense	2,334,256.76	Within 1 year	25.33
Zhang Liang	517,058.28	Within 1 year	5.61
Hang zhou customs of PRC	400,000.00	Within 1 year	4.34
Ministry of Finance in Tiedong District, Siping City	100,000.00	Within 3 years	1.09
	<u>7,781,315.04</u>		<u>84.44</u>

As at 31 December 2012 and 31 December 2011, the Group did not have other receivables due from related parties.

As at 31 December 2012 and 31 December 2011, the Group did not have other receivables transferred as financial assets for derecognition.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (6) INVENTORIES

	31 December 2012	31 December 2011
Raw materials	55,620,707.37	50,096,519.37
Work-in-progress	20,626,741.37	18,143,413.98
Finished goods	59,164,082.89	54,518,023.83
Low-value consumables	1,482,871.60	969,428.73
	<u>136,894,403.23</u>	<u>123,727,385.91</u>
Less: Provision for impairment of inventories	<u>(426,788.15)</u>	<u>(1,309,267.99)</u>
	<u><u>136,467,615.08</u></u>	<u><u>122,418,117.92</u></u>

The analysis of provision for impairment of inventories is as follows:

#### 31 December 2012

	At the beginning of year	Provision during the year	Decrease during the year		At the end of year
			Reversal	Write-off	
Raw materials	843,510.23	-	(529,736.43)	(313,773.80)	-
Finished goods	465,757.76	426,788.15	(465,757.76)	-	426,788.15
	<u>1,309,267.99</u>	<u>426,788.15</u>	<u>(995,494.19)</u>	<u>(313,773.80)</u>	<u>426,788.15</u>

#### 31 December 2011

	At the beginning of year	Provision during the year	Decrease during the year		At the end of year
			Reversal	Write-off	
Raw materials	1,791,952.24	-	(948,422.01)	-	843,510.23
Finished goods	1,341,966.45	112,300.45	(88,136.14)	(900,373.00)	465,757.76
	<u>3,133,918.69</u>	<u>112,300.45</u>	<u>(1,036,578.15)</u>	<u>(900,373.00)</u>	<u>1,309,267.99</u>

As at 31 December 2012, the Group made provisions on the diminution of inventories, which were mainly attributable to costs being higher than net realisable value.

As at 31 December 2011, the Group made provision for impairment of inventories, which is mainly attributable to long aging and obsolete inventories.

As at 31 December 2012 and 31 December 2011, the Group had no inventories as debt guarantees or with restricted ownership.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (7) AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2012	31 December 2011
Unlisted investments	<u>4,000,000.00</u>	<u>—</u>

For 2012 and 2011, the Group did not reclassify any investments from held to maturity to financial assets available for sale.

As at 31 December 2012, Siping Steering, a subsidiary of the Company, acquired non-guaranteed floating income financial products with no fixed terms of RMB4,000,000.00 (code:0701CDQB) from Siping City Central Road East Branch, Industrial and Commercial Bank of China.

### (8) OTHER CURRENT ASSET

	31 December 2012	31 December 2011
Prepaid expenses	<u>1,224,181.63</u>	<u>1,876,410.23</u>

Prepaid expenses are mainly amortization for the moulds purchased and heating expenses.

### (9) INVESTMENT IN AN ASSOCIATE

The main informations for the associates of the Group are as follows:

	Type of entity	Place of registration	Authorized representative	Nature of business	Registered capital	Organization code
Wuhu Sterling Steering System Co., Ltd. ("Wuhu Sterling")	Other limited liability company	Wuhu	Zhang Shi Quan	Develop, manufacture and sale of automobile steering system and related products, and provide after-sales service	20,000,000.00	76900919-4

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (9) INVESTMENT IN AN ASSOCIATE (continued)

The Company previously held 36% of equity of Wuhu Sterling. On 8 April 2011, the Company and Sun Ya Hong (one of the shareholders of Wuhu Sterling) entered into an equity transfer agreement, pursuant to which Sun Ya Hong agreed to transfer 10% of the equity of Wuhu Sterling to the Company, the total consideration was RMB4,840,000.00 in cash. Meanwhile, the Company assumed the relevant tax and expenses arising from equity transfer, amounting to RMB569,936.00. Sun Ya Hong transferred the remaining 5% of equity to another shareholder of Wuhu Sterling, Wuhu Chery Technology Co., Ltd. ("Chery Technology") Pursuant to the equity transfer agreement, the major shareholder rights and obligations in relation to the target equity shall be assumed by the Company since the date when the Company completed the payment of the equity transfer proceedings. Wuhu Sterling completed the change of industrial and commercial registration on 24 October 2011. The Company paid the transfer consideration in full on 21 November 2011.

On 30 January 2013, the Company entered into an Equity Transfer Contract with Chery Technology, the existing shareholder of Wuhu Sterling, pursuant to which Chery Technology transferred 6% of equity interests held by it in Wuhu Sterling to the Company at a consideration of RMB3,000,000.00; at the same time, the Company increased its capital contribution to Wuhu Sterling and entered into a Capital Contribution Agreement with other shareholders of Wuhu Sterling. The Company increased its investment by RMB7,000,000.00, of which RMB2,800,000.00 was contributed as registered capital and RMB4,200,000.00 was contributed as capital surplus. Upon the completion of the Transactions, the registered capital of Wuhu Sterling will be increased to RMB22,800,000.00, among which: the Company paid RMB13,200,000.00 of the registered capital and holds 57.89% of the equity interests; Chery Technology paid RMB6,600,000.00 of the registered capital and holds 28.95% of the equity interests; An Qing Hui paid RMB3,000,000.00 of the registered capital and holds 13.16% of the equity interests. The Acquisition is subject to the approval being obtained from the competent state assets administration authorities of Chery Technology, and being handled in accordance with the procedures stipulated in the relevant laws and regulations regarding to the transfer of state-owned assets.

As at 31 December 2012 and 31 December 2011, the Company holds 46% of the equity interest of Wuhu Sterling.

As at 31 December 2012 and 31 December 2011, the summarized financial information of the Group's associate is as follows:

	31 December 2012	31 December 2011
Total assets	123,460,974.57	108,938,265.52
Total liabilities	108,703,282.31	89,136,450.16
Total net assets	14,757,692.26	19,801,815.36
Revenue	92,675,198.20	101,993,746.36
Net loss	(5,044,123.10)	(286,390.27)



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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (10) LONG-TERM EQUITY INVESTMENTS

As at 31 December 2012 and 31 December 2011, details of long-term equity investments in associates are as follows:

Unlisted investments:

Equity method:

	31 December 2012	31 December 2011
Investment cost	12,609,936.00	12,609,936.00
Balance at the beginning of the year	11,696,900.10	6,615,273.15
Increase/decrease during the year	(2,320,692.91)	5,081,626.95
Balance at the end of the year	9,376,207.19	11,696,900.10
Percentage of shareholding	46%	46%
Percentage of voting rights	46%	46%
Impairment provision	-	-
Impairment provision made in the year	-	-
Cash bonus in the year	-	-

In the opinion of the management of the Company, as at 31 December 2012 and 31 December 2011, there was no need to make impairment provision for the above long-term equity investments.

In 2012 and 2011, the Group had no long-term equity investments accounted using the cost method.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (11) FIXED ASSETS

	Buildings and structures	Plant and equipment	Transportation vehicles	Office equipment and others	Total
Cost:					
At 31 December 2010	133,231,265.40	234,007,344.73	17,136,209.73	5,719,469.00	390,094,288.86
Additions	264,049.00	5,728,560.97	1,619,154.06	1,475,713.73	9,087,477.76
Transfer from construction in progress	1,224,571.00	24,990,520.07	1,302,412.58	431,992.32	27,949,495.97
Disposal	—	(1,818,001.36)	(314,587.00)	—	(2,132,588.36)
At 31 December 2011	134,719,885.40	262,908,424.41	19,743,189.37	7,627,175.05	424,998,674.23
Additions	178,960.63	3,438,447.22	1,710,441.12	575,101.37	5,902,950.34
Transfer from construction in progress	37,620,772.23	49,554,367.64	929,280.56	1,088,933.94	89,193,354.37
Disposal	(2,583,087.47)	(1,461,524.32)	(2,741,417.41)	—	(6,786,029.20)
At 31 December 2012	<u>169,936,530.79</u>	<u>314,439,714.95</u>	<u>19,641,493.64</u>	<u>9,291,210.36</u>	<u>513,308,949.74</u>
Less: accumulated depreciation:					
At 31 December 2010	21,907,810.27	72,738,943.53	8,708,909.76	4,437,410.84	107,793,074.40
Provision	3,607,994.60	21,664,389.84	1,276,400.98	1,837,567.51	28,386,352.93
Disposal	—	(1,230,789.49)	(254,183.66)	—	(1,484,973.15)
At 31 December 2011	25,515,804.87	93,172,543.88	9,731,127.08	6,274,978.35	134,694,454.18
Provision	3,994,799.11	23,901,514.33	2,871,171.70	694,508.53	31,461,993.67
Disposal	(1,506,030.44)	(1,239,420.02)	(2,354,908.15)	—	(5,100,358.61)
At 31 December 2012	<u>28,004,573.54</u>	<u>115,834,638.19</u>	<u>10,247,390.63</u>	<u>6,969,486.88</u>	<u>161,056,089.24</u>
Book value:					
At 31 December 2011	<u>109,204,080.53</u>	<u>169,735,880.53</u>	<u>10,012,062.29</u>	<u>1,352,196.70</u>	<u>290,304,220.05</u>
At 31 December 2012	<u>141,931,957.25</u>	<u>198,605,076.76</u>	<u>9,394,103.01</u>	<u>2,321,723.48</u>	<u>352,252,860.50</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (11) FIXED ASSETS *(continued)*

The management of the Company believes that there is no need to make impairment provisions for the aforesaid fixed assets as at 31 December 2012 and 31 December 2011.

As at 31 December 2012 and 31 December 2011, the Group had no fixed assets with restricted ownership, no fixed assets which were temporarily idle, no fixed assets for lease financing, no fixed assets for operating lease, and no fixed assets held for sale.

On 31 December 2012, the original values of fixed assets that had been fully depreciated but still in use were RMB 36,438,900.79 (31 December 2011: RMB32,066,706.86).

On 31 December 2012, no fixed assets that had not obtained ownership certificates.

On 31 December 2011, fixed assets that had not obtained ownership certificates were as follows:

Project	Reasons for not yet obtaining ownership certificates
Main workshop of Hangzhou New Shibao Electric Power Steering Co., Ltd.	Obtaining ownership certificates is in progress
Building complex and plants of Jilin Shibao Machinery Manufacturing Co., Ltd.	Obtaining ownership certificates is in progress

As at 31 December 2011, the carrying value of the fixed assets that had not obtained ownership certificates amounted to RMB29,361,219.05.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (12) CONSTRUCTION IN PROGRESS

	31 December 2012	31 December 2011
Buildings	5,186,751.04	38,492,326.82
Machinery equipment	85,537,682.87	101,223,194.97
Transportation equipment	186,239.33	86,664.27
Office equipment and others	<u>1,951,160.28</u>	<u>1,174,228.75</u>
	92,861,833.52	140,976,414.81
Impairment provision for construction in progress	<u>—</u>	<u>—</u>
	<u><u>92,861,833.52</u></u>	<u><u>140,976,414.81</u></u>

In the opinion of the management of the Company, as at 31 December 2012 and 31 December 2011, there was no need to make impairment provision for the above construction in progress.

#### In 2012

	Balance at the beginning of the year	Increase in the year	Transferred to fixed assets in the year	Balance at the end of the year	Fund resources
Capacity expansion project of Siping Steering	20,270,788.98	1,528,486.77	(21,615,515.07)	183,760.68	Self-owned funds
Capacity expansion project of Hangzhou New Shibao	15,608,918.64	13,870,009.69	(8,285,788.96)	21,193,139.37	Self-owned funds
Capacity expansion project of Hangzhou Shibao	62,720,540.90	7,724,421.66	(42,514,774.56)	27,930,188.00	Self-owned funds and bank borrowings
Jilin precision casting, processing and construction project	42,376,166.29	17,955,854.96	(16,777,275.78)	43,554,745.47	Self-owned funds and bank borrowings
	<u>140,976,414.81</u>	<u>41,078,773.08</u>	<u>(89,193,354.37)</u>	<u>92,861,833.52</u>	

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (12) CONSTRUCTION IN PROGRESS (continued)

In 2011

	Balance at the beginning of the year	Increase in the year	Transferred to fixed assets in the year	Balance at the end of the year	Fund resources
Capacity expansion project of Siping Steering	251,598.81	20,224,318.37	(205,128.20)	20,270,788.98	Self-owned funds
Capacity expansion project of Hangzhou New Shibao	990,014.80	22,267,297.62	(7,648,393.78)	15,608,918.64	Self-owned funds
Capacity expansion project of Hangzhou Shibao	7,460,191.20	75,332,323.69	(20,071,973.99)	62,720,540.90	Self-owned funds
Jilin precision casting, processing and construction project	3,595,263.00	38,804,903.29	(24,000.00)	42,376,166.29	Self-owned funds
	<u>12,297,067.81</u>	<u>156,628,842.97</u>	<u>(27,949,495.97)</u>	<u>140,976,414.81</u>	

In 2012

	Progress of construction	Accumulated amount of capitalization interest	Among which: capitalization interest of the year	Capitalization interest rate of the year
Capacity expansion project of Hangzhou Shibao	Installation and testing	1,280,709.33	1,280,709.33	7.32%
Jilin precision casting, processing and construction project	Installation and testing	1,506,023.43	1,506,023.43	6.45%
		<u>2,786,732.76</u>	<u>2,786,732.76</u>	

In 2011, there was no capitalization interest attributed to the Group's construction in progress.

The Group had no construction in progress used as pledges and guarantees.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (13) INTANGIBLE ASSETS

	Land use right	Patented technology	Software	Non-patented technology	Total
Cost:					
As at 31 December 2010					
and 31 December 2011	57,651,479.00	1,281,666.67	450,550.00	25,963,095.33	85,346,791.00
Add	-	-	986,111.04	-	986,111.04
Less	(1,115,182.00)	-	-	-	(1,115,182.00)
As at 31 December 2012	<u>56,536,297.00</u>	<u>1,281,666.67</u>	<u>1,436,661.04</u>	<u>25,963,095.33</u>	<u>85,217,720.04</u>
Less: accumulated amortization					
As at 31 December 2010	6,240,356.25	21,361.11	286,982.00	157,108.62	6,705,807.98
Add	<u>1,340,572.42</u>	<u>128,166.62</u>	<u>76,702.90</u>	<u>2,742,653.38</u>	<u>4,288,095.32</u>
As at 31 December 2011	7,580,928.67	149,527.73	363,684.90	2,899,762.00	10,993,903.30
Add	1,141,842.64	128,166.65	194,515.88	2,748,012.68	4,212,537.85
Less	<u>(267,643.68)</u>	-	-	-	<u>(267,643.68)</u>
As at 31 December 2012	<u>8,455,127.63</u>	<u>277,694.38</u>	<u>558,200.78</u>	<u>5,647,774.68</u>	<u>14,938,797.47</u>
Book value:					
As at 31 December 2011	<u>50,070,550.33</u>	<u>1,132,138.94</u>	<u>86,865.10</u>	<u>23,063,333.33</u>	<u>74,352,887.70</u>
As at 31 December 2012	<u>48,081,169.37</u>	<u>1,003,972.29</u>	<u>878,460.26</u>	<u>20,315,320.65</u>	<u>70,278,922.57</u>

The leased land is located in Mainland China, and is held under a medium term lease.

The management of the Company believes that there is no need to make impairment provisions for the aforesaid intangible assets as at 31 December 2012 and 31 December 2011.

As at 31 December 2012 and 31 December 2011, the Group had no intangible assets with restricted ownership or formed through internal research and development.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (13) INTANGIBLE ASSETS *(continued)*

The original values of the patented technology, the EPS controller of Beijing Autonics, was RMB1,281,666.67, with its patent number of ZL200630098869.0. This patent takes the evaluation report no. Zhe Tian Hui Evaluation report [2011] No. 2 offered by Zhejiang Tian Hui Asset Evaluation Company as a reference basis. The value determined after negotiation was recognized as the entry value of the intangible assets.

Details of the non-patented technology with original values totalling RMB25,963,095.33 are as follows:

Name of the non-patented technology	Original values	Carrying value 31 December 2012
EPS control software copyright <i>(note 1)</i>	2,990,555.56	2,342,601.85
Test platform of the EPS controller <i>(note 1)</i>	2,136,111.10	1,673,287.03
EPS controller <i>(note 1)</i>	1,281,666.67	1,003,972.22
EPS electronic control units <i>(note 1)</i>	1,554,762.00	895,459.55
Proprietary technology for the EPS controller <i>(note 2)</i>	18,000,000.00	14,400,000.00
Total	<u>25,963,095.33</u>	<u>20,315,320.65</u>

Notes:

- (1) The four non-patented technologies are owned by Beijing Autonics, taking the evaluation report no. Zhe Tian Hui Evaluation report [2011] No.2 offered by Zhejiang Tian Hui Asset Evaluation Company as a reference basis. The value determined after negotiation was recognized as the entry value of the intangible assets.
- (2) The proprietary technology for the electric power steering system amounts to RMB18,000,000.00 with which (valued at RMB18,000,000.00) the natural person Wang Chao Jiu became a shareholder of Hang Zhou New Shibao, and held its 30% of shares. This non-patented technology takes the evaluation report no. Zhe Tian Hui Evaluation report [2010] No.20 offered by Zhejiang Tian Hui Asset Evaluation Company as a reference basis. The value determined after negotiation was recognized as the entry value of the intangible assets.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (14) GOODWILL

As at 31 December 2012 and 31 December 2011, the goodwill was nil. In 2010, the Company incurred goodwill of RMB178,027.50 because of the business combination under the common control. The management of the Company considered that the amount is insignificant, so it was written off in 2011.

### (15) DEFERRED TAX ASSETS/LIABILITIES

Deferred tax assets and deferred tax liabilities are not stated at the net amount after offset:

Recognized deferred tax assets and liabilities:

	31 December 2012	31 December 2011
<b>Deferred tax assets</b>		
Bad debt provision	169,961.39	590,133.52
Warranty expenses	481,104.96	934,931.62
Deductible loss	<u>2,889,136.33</u>	<u>—</u>
	<u><u>3,540,202.68</u></u>	<u><u>1,525,065.14</u></u>

	31 December 2012	31 December 2011
<b>Deferred tax liabilities</b>		
Adjustment to fair value of the business combination not under the common control	<u>1,505,958.33</u>	<u>1,698,208.33</u>

Unrecognized deferred tax assets are as follows:

	31 December 2012	31 December 2011
Deductible loss	<u><u>29,970,127.62</u></u>	<u><u>32,089,147.00</u></u>



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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (15) DEFERRED TAX ASSETS/LIABILITIES *(continued)*

The deductible loss of the unrecognized deferred tax assets will expire in the following years:

	31 December 2012	31 December 2011
2015	5,821,084.82	6,378,868.81
2016	10,996,947.74	25,710,278.19
2017	13,152,095.06	–
	<u>29,970,127.62</u>	<u>32,089,147.00</u>

The temporary differences corresponding to the asset or liability items giving rise to the temporary differences are as follows:

	31 December 2012	31 December 2011
Taxable temporary differences		
Adjustment to fair value of the business combination not under the common control	<u>6,023,833.32</u>	<u>6,792,833.32</u>
Deductible temporary difference		
Bad debt provision	874,621.28	2,290,074.23
Provision for decline in price of inventories	–	1,309,267.99
Warranty expenses	3,207,366.43	6,232,877.44
Deductible loss	<u>11,556,545.30</u>	–
	<u>15,638,533.01</u>	<u>9,832,219.66</u>

### (16) OTHER NON-CURRENT ASSETS

Other non-current assets are prepayments for purchasing fixed assets and land.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (17) PROVISION FOR IMPAIRMENT OF ASSETS

31 December 2012

	Balance at the beginning of the year	Provision during the year	Decrease in the year		Balance at the end of the year
			Reversal	Write-off	
Bad debt provision	2,290,074.23	-	(1,413,112.92)	(2,340.03)	874,621.28
Provision for decline in price of inventories	1,309,267.99	426,788.15	(995,494.19)	(313,773.80)	426,788.15
	<u>3,599,342.22</u>	<u>426,788.15</u>	<u>(2,408,607.11)</u>	<u>(316,113.83)</u>	<u>1,301,409.43</u>

31 December 2011

	Balance at the beginning of the year	Provision during the year	Decrease in the year		Balance at the end of the year
			Reversal	Write-off	
Bad debt provision	2,379,833.69	105,350.44	(195,109.90)	-	2,290,074.23
Provision for decline in price of inventories	3,133,918.69	112,300.45	(1,036,578.15)	(900,373.00)	1,309,267.99
Goodwill	178,027.50	-	-	(178,027.50)	-
	<u>5,691,779.88</u>	<u>217,650.89</u>	<u>(1,231,688.05)</u>	<u>(1,078,400.50)</u>	<u>3,599,342.22</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)* (18) SHORT-TERM LOANS

	31 December 2012	31 December 2011
Guaranteed loans	126,500,000.00	60,000,000.00
Secured loans	–	25,000,000.00
Pledged loans	–	4,079,832.00
Credit loans	<u>65,000,000.00</u>	<u>25,000,000.00</u>
	<u>191,500,000.00</u>	<u>114,079,832.00</u>

As at 31 December 2012, interest rates for above loans are between 6.00% and 6.56% per year (31 December 2011: between 5.85% and 8.50%).

Zhejiang Shibao Company Limited obtained a loan of RMB40,000,000.00 from the Yi Wu branch of ICBC on 17 September 2012, for a term of twelve months, expiring on 13 September 2013, the annual interest rate of which was the national benchmark interest rate of the same grade at the same time, floating every three months.

Zhejiang Shibao Company Limited obtained a loan of RMB25,000,000.00 from the Yi Wu branch of ICBC on 9 October 2012, for a term of twelve months, expiring on 9 October 2013, the annual interest rate of which was the national benchmark interest rate of the same grade at the same time, floating every three months.

Hangzhou Shibao obtained a loan of RMB24,000,000.00 from Hangzhou Cheng Xi branch of Industrial Bank Co., Ltd. on 27 March 2012, for a term of twelve months, expiring on 26 March 2013, the annual interest rate of which was the national benchmark interest rate of the same grade at the same time, floating every month. The loan was guaranteed by Zhejiang Shibao Holding and Zhang Shi Quan. Hangzhou Shibao repaid RMB7,500,000.00 on 30 November 2012.

Hangzhou Shibao obtained a loan of RMB20,000,000.00 from Hangzhou branch of CITIC on 16 April 2012, for a term of twelve months, expiring on 16 April 2013, the annual interest rate of which was 6.56%. The loan was guaranteed by Zhejiang Shibao Holding.

# NOTES TO THE FINANCIAL STATEMENTS

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (18) SHORT-TERM LOANS *(continued)*

Hangzhou Shibao obtained a loan of RMB10,000,000.00 from Hangzhou branch of CITIC on 21 June 2012, for a term of twelve months, expiring on 20 June 2013, the annual interest rate of which was 6.31%. The loan was guaranteed by Zhejiang Shibao Holding.

Hangzhou Shibao obtained a loan of RMB10,000,000.00 from Hangzhou branch of CITIC on 25 June 2012, for a term of twelve months, expiring on 25 June 2013, the annual interest rate of which was 6.31%. The loan was guaranteed by Zhejiang Shibao Holding.

Hangzhou Shibao obtained a loan of RMB30,000,000.00 from Hangzhou branch of CITIC on 3 September 2012, for a term of twelve months, expiring on 3 September 2013, the annual interest rate of which was the national benchmark interest rate of the same grade at the same time, adjusting on the date of interest rate adjustment of the national benchmark interest rate of the People's Bank of China. The loan was guaranteed by Zhejiang Shibao Holding.

Hangzhou Shibao obtained a loan of RMB10,000,000.00 from Hangzhou Yuquan branch of China Zheshang Bank on 17 September 2012, for a term of twelve months, expiring on 17 September 2013, the annual interest rate of which was 6.00%. The loan was guaranteed by Zhejiang Shibao Holding.

Hangzhou Shibao obtained a loan of RMB15,000,000.00 from Hangzhou Yuquan branch of China Zheshang Bank on 19 November 2012, for a term of twelve months, expiring on 19 November 2013, the annual interest rate of which was the national benchmark interest rate of the same grade at the same time, floating every month. The loan was guaranteed by Zhejiang Shibao Holding.

Hangzhou Shibao obtained a loan of RMB15,000,000.00 from Hangzhou Yuquan branch of China Zheshang Bank on 28 November 2012, for a term of twelve months, expiring on 28 November 2013, the annual interest rate of which was the national benchmark interest rate of the same grade at the same time, floating every month. The loan was guaranteed by Zhejiang Shibao Holding.

As at 31 December 2012 and 31 December 2011, the Group had no short-term loans which was past due but remained unpaid.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (19) NOTES PAYABLE

As at 31 December 2012 and 31 December 2011, all notes payable of the Group were banker's acceptances.

Notes payable were non-interest-bearing and were normally settled on terms of six months.

As at 31 December 2012 and 31 December 2011, all notes payable of the Group would be due in the next accounting year.

### (20) ACCOUNTS PAYABLE

	31 December 2012	31 December 2011
Within 1 year	153,244,102.50	158,573,598.72
1-2 years	7,262,957.72	3,781,087.89
2-3 years	1,128,525.17	931,376.11
Over 3 years	1,973,901.17	1,833,773.68
	<u>163,609,486.56</u>	<u>165,119,836.40</u>

As at 31 December 2012 and 31 December 2011, the Group had no amounts payable to the shareholders or related parties holding 5% (inclusive) or more voting rights of the Company.

Significant balance of accounts payable which was aged over one year as at 31 December 2012 is set forth below:

Company	Amount payable	Reason
Suzhou Dongyi Precious Machinery Co., Ltd	1,090,000.00	Quality assurance deposit
Qingdao Xindong Machinery Co., Ltd.	1,278,000.00	Quality assurance deposit
Jiangyin City Third Casting Machinery Co., Ltd.	1,784,000.00	Quality assurance deposit

The above significant balance of accounts payable which was aged over one year, of which RMB808,100.00 of was repaid after the balance sheet date.

As at 31 December 2011, the Group had no significant balance of accounts payable which was aged over one year.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (21) ADVANCE FROM CUSTOMERS

	31 December 2012	31 December 2011
Within 1 year	1,791,318.23	1,151,145.72
1-2 years	<u>489,024.20</u>	<u>1,084,117.11</u>
	<u><u>2,280,342.43</u></u>	<u><u>2,235,262.83</u></u>

As at 31 December 2012 and 31 December 2011, no balance of advance from customers to the shareholders or related parties holding 5% (inclusive) or more voting rights of the Company, no significant balance of advance from customers which was aged over one year.

### (22) EMPLOYEE BENEFITS PAYABLE

	1 January 2012	Increase during the year	Decrease during the year	31 December 2012
Salaries, bonuses, allowances and subsidies	3,107,798.07	54,947,909.27	54,320,097.00	3,735,610.34
Staff welfare	-	5,727,599.08	5,721,454.08	6,145.00
Social insurances	-	10,291,200.81	10,291,200.81	-
Including:				
Medical insurance	-	3,906,591.70	3,906,591.70	-
Basic pension insurance	-	5,032,614.43	5,032,614.43	-
Unemployment insurance	-	439,864.02	439,864.02	-
Work injury insurance	-	218,392.34	218,392.34	-
Maternity insurance	-	195,193.53	195,193.53	-
Housing funds	-	498,544.79	498,544.79	-
Labour union funds and employee education funds	<u>416,956.44</u>	<u>826,623.22</u>	<u>771,226.91</u>	<u>472,352.75</u>
	<u><u>3,524,754.51</u></u>	<u><u>71,793,332.38</u></u>	<u><u>71,103,978.80</u></u>	<u><u>4,214,108.09</u></u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (22) EMPLOYEE BENEFITS PAYABLE *(continued)*

	1 January 2011	Increase during the year	Decrease during the year	31 December 2011
Salaries, bonuses, allowances and subsidies	7,150,052.93	47,059,337.61	51,101,592.47	3,107,798.07
Staff welfare	-	4,528,677.34	4,528,677.34	-
Social insurances	780,793.45	7,150,655.83	7,931,449.28	-
Including:				
Medical insurance	286,399.94	2,343,718.38	2,630,118.32	-
Basic pension insurance	389,434.05	4,148,052.41	4,537,486.46	-
Unemployment insurance	58,982.67	226,490.01	285,472.68	-
Work injury insurance	22,383.72	58,627.12	81,010.84	-
Maternity insurance	23,593.07	127,805.91	151,398.98	-
Housing funds	-	245,962.00	245,962.00	-
Labour union funds and employee education funds	<u>807,061.97</u>	<u>158,420.11</u>	<u>548,525.64</u>	<u>416,956.44</u>
	<u>8,737,908.35</u>	<u>58,897,090.89</u>	<u>64,110,244.73</u>	<u>3,524,754.51</u>

As at 31 December 2012 and 31 December 2011, the Group had no balance in arrears.

As at 31 December 2012 and 31 December 2011, all employee benefits cost payable would be settled in the next accounting period.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (23) TAXES PAYABLE

	31 December 2012	31 December 2011
Value added tax	(11,287,767.03)	(10,749,453.17)
Corporate income tax	6,381,541.27	14,861,666.55
Business tax	366,313.53	22,442.75
Urban maintenance and Construction tax	596,880.13	724,104.59
Individual income tax	151,291.58	89,674.08
Others	1,220,468.34	794,602.36
	<u>(2,571,272.18)</u>	<u>5,743,037.16</u>

The basis of taxes payable and the tax rates are disclosed in Note 3.

### (24) INTERESTS PAYABLE

	31 December 2012	31 December 2011
Interest of long-term borrowings	1,160,633.33	1,160,633.33
Interest of short-term loans	336,550.17	205,838.43
	<u>1,497,183.50</u>	<u>1,366,471.76</u>

Interest of long-term borrowings refers to the loan interest attached to the special funds for treasury bonds on key technological improvement projects of the State granted by the Ministry of Finance in Siping.



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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (25) OTHER PAYABLES

	31 December 2012	31 December 2011
Deposits	95,050.00	95,050.00
Labour service company management fees	122,149.32	680.13
Sun Ya Hong	–	569,936.00
Others	<u>614,433.38</u>	<u>286,122.04</u>
	<u><u>831,632.70</u></u>	<u><u>951,788.17</u></u>

As at 31 December 2012 and 31 December 2011, the Group had no amounts payable to the shareholders or other related parties holding 5% (inclusive) or more of the voting rights of the Company.

As at 31 December 2012 and 31 December 2011, there were no significant balance of other payables which was aged over one year.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (26) NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	31 December 2012	31 December 2011
Long-term borrowings due within one year		
– Guaranteed loans	13,000,000.00	13,000,000.00
– Credit loans	790,400.00	–
	<u>13,790,400.00</u>	<u>13,000,000.00</u>

Jilin Shibao Machinery Manufacturing Co., Ltd. obtained a loan of RMB20,000,000.00 from the Siping Branch of China Construction Bank on 1 December 2010, a loan of RMB15,000,000.00 from the Siping Branch of China Construction Bank on 20 May 2011, the annual interest rate of which was 8.28%, and it was secured by Siping Steering Gear Co., Ltd. Among such amount, RMB5,000,000.00 was due and repaid on 30 November 2011, RMB13,000,000.00 was due and repaid on 16 November 2012, RMB13,000,000.00 will be due for repayment on 30 November 2013, and the remaining RMB4,000,000.00 will be due for repayment on 30 November 2014.

On 1 January 2002, Siping Steering obtained a loan of RMB2,260,000.00 under the special fund for treasury bond on the state key projects of technological transformation from the Siping Municipal Bureau of Finance, for a term of fifteen years, with a grace period of four years, the annual interest rate of which was 5%. Among such amount, RMB869,600.00 was repaid on 30 December 2011, RMB600,000.00 was repaid on 3 December 2012 and the remaining RMB790,400.00 will be repaid according to the requirement of the Siping Municipal Bureau of Finance.

As at 31 December 2012 and 31 December 2011, the Group had no amounts which was past due but was granted with extensions among the long-term borrowings due within one year.

As at 31 December 2012 and 31 December 2011, the Group had no long-term borrowings which was past due but remained unpaid.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (27) OTHER CURRENT LIABILITIES

	31 December 2012	31 December 2011
Deferred income	3,092,960.41	2,592,960.39
Accrued expenses	<u>5,197,596.69</u>	<u>8,060,419.17</u>
	<u><u>8,290,557.10</u></u>	<u><u>10,653,379.56</u></u>

Deferred income was the government grants related to assets which would be recognized as income in the next year, including the subsidies granted by the National Development and Reform Commission ("NDRC") in respect of the precious casting and processing of automotive components project, the special subsidies granted by NDRC to support the development of the Group's steering knuckle assembly project for sedans and the subsidies granted by the Management Committee of the Tiedong Economic Development Zone in Siping in respect of the precious casting and processing of automotive components project.

Accrued expenses mainly include warranty expenses, accrued auditing costs and labour payment.

### (28) LONG-TERM BORROWINGS

	31 December 2012				
	Currency	Amount	Conditions	Interest rate	Maturity date
Special fund for treasury bond	RMB	2,830,000.00	Credit borrowings	5.00%	31 Dec. 2020
China Construction Bank	RMB	4,000,000.00	Guaranteed borrowings	8.28%	30 Nov. 2014
Administrative committee of Tiedong Economic Development Zone of Siping	RMB	8,800,000.00	Other borrowings	Not yet contracted	1 Dec. 2014
Total		<u><u>15,630,000.00</u></u>			

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued) (28) LONG-TERM BORROWINGS (continued)

	Currency	30 December 2011		Interest rate	Maturity date
		Amount	Conditions		
Special fund for treasury bond	RMB	2,830,000.00	Credit borrowings	5.00%	31 Dec. 2020
Special fund for treasury bond	RMB	1,390,400.00	Credit borrowings	5.00%	31 Dec. 2016
China Construction Bank	RMB	2,000,000.00	Guaranteed borrowings	6.90%	30 Nov. 2013
China Construction Bank	RMB	11,000,000.00	Guaranteed borrowings	8.28%	30 Nov. 2013
China Construction Bank	RMB	4,000,000.00	Guaranteed borrowings	8.28%	30 Nov. 2014
Administrative committee of Tiedong Economic Development Zone of Siping	RMB	8,800,000.00	Other borrowings	Not yet contracted	1 Dec. 2014
Total		<u>30,020,400.00</u>			

The analysis of long-term borrowings by their maturity date is as follows:

	31 December 2012	31 December 2011
Long-term borrowings:		
Due within 1 year or payable on demand	13,790,400.00	13,000,000.00
Due within 2 years	12,800,000.00	13,000,000.00
Due within 3 to 5 years, inclusive	–	14,190,400.00
Over 5 years	<u>2,830,000.00</u>	<u>2,830,000.00</u>
	<u>29,420,400.00</u>	<u>43,020,400.00</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (28) LONG-TERM BORROWINGS (continued)

As at 31 December 2012 and 31 December 2011, the Group had no long-term borrowings which were past due but remained unpaid.

Special funds for treasury bonds refer to the loans under the special funds for treasury bonds on the key projects of technological transformation of the State granted by the Siping Municipal Bureau of Finance. The borrowings from the Management Committee of the Tiedong Economic Development Zone in Siping refer to the capital loan for Jilin Shibao to expand production.

### (29) OTHER NON-CURRENT LIABILITIES

	31 December 2012	31 December 2011
Government grants related to assets	<u>27,984,418.23</u>	<u>26,202,378.62</u>

Other non-current liabilities were government grants related to assets, including the subsidies granted by NDRC in respect of the precious casting and processing of automotive components project, the special subsidies granted by NDRC to support the development of the Group's steering knuckle assembly project for sedans and the subsidies granted by the Management Committee of the Tiedong Economic Development Zone in Siping in respect of the precious casting and processing of automotive components project.

### (30) SHARE CAPITAL

	31 December 2012	31 December 2011
Registered and paid-in capital	<u>277,657,855.00</u>	<u>262,657,855.00</u>
Nominal value per share	<u>1</u>	<u>1</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (30) SHARE CAPITAL (continued)

The types and structure of the shares are as follows:

	At beginning	Issue of new shares	At end of year of year
Shares with selling restrictions			
Shares held by domestic legal person	165,387,223.00	–	165,387,223.00
Shares held by domestic natural person	<u>10,556,632.00</u>	–	<u>10,556,632.00</u>
Shares with selling restrictions, in aggregate	<u>175,943,855.00</u>	–	<u>175,943,855.00</u>
Shares without selling restrictions			
RMB-denominated ordinary shares	–	15,000,000.00	15,000,000.00
Overseas listed foreign shares	<u>86,714,000.00</u>	–	<u>86,714,000.00</u>
Shares without selling restrictions, in aggregate	<u>86,714,000.00</u>	<u>15,000,000.00</u>	<u>101,714,000.00</u>
Total number of shares	<u>262,657,855.00</u>	<u>15,000,000.00</u>	<u>277,657,855.00</u>

With the approval regarding “Reply Relating to the Approval of the Initial Public Offering of Zhejiang Shibao Company Limited” (CSRC Approval [2012] No.898) by China Securities Regulatory Commission, the Company commenced the initial public offering of RMB-denominated ordinary shares (A Shares) in November 2012, and was listed on the SME Board of Shenzhen Stock Exchange. The offer size is 15,000,000 shares with nominal value of RMB1 each. The issue price is RMB2.58 per share. The aggregate subscription by shareholders upon the issue was RMB38,700,000.00, after deducting the underwriting commissions of securities dealers and other issuance costs incurred, the actual net proceeds raised amounted to RMB 29,711,807.49, of which RMB15,000,000.00 was credited to share capital, and share premium of RMB 14,711,807.49 was credited to capital reserve. Following the issue, the total share capital of the Company will increase from RMB262,657,855.00 to RMB277,657,855.00. The net proceeds raised from the issue will be applied to the increase of production of power automotive steering gears project (汽車液壓助力轉向器擴產項目), the precious casting and processing of automotive components project (汽車零件部精密鑄件及加工建設項目) and the research and development, examination and inspection and trial production centre of automotive steering gear system project (汽車轉向系統研發、檢測及試製中心項目). The capital increase was verified by BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP and a capital verification report XIN KUAI SHI BAO ZI [2012] NO.310403 (信會師報字[2012]第310403號) was issued.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (31) CAPITAL RESERVE

	Amount at 31 December 2011	Increase during the year	Decrease during the year	Amount at 31 December 2012
Share premium	21,143,008.19	14,711,807.49	-	35,854,815.68
Other capital reserve	6,444,389.04	-	-	6,444,389.04
	<u>27,587,397.23</u>	<u>14,711,807.49</u>	<u>-</u>	<u>42,299,204.72</u>

	Amount at 31 December 2010	Increase during the year	Decrease during the year	Amount at 31 December 2011
Share premium	21,143,008.19	-	-	21,143,008.19
Other capital reserve	6,357,764.40	86,624.64	-	6,444,389.04
	<u>27,500,772.59</u>	<u>86,624.64</u>	<u>-</u>	<u>27,587,397.23</u>

### (32) STATUTORY RESERVE FUNDS

	Amount at 31 December 2011	Increase during the year	Decrease during the year	Amount at 31 December 2012
Statutory surplus reserve	<u>95,087,541.52</u>	<u>12,123,268.30</u>	<u>-</u>	<u>107,210,809.82</u>

	Amount at 31 December 2010	Increase during the year	Decrease during the year	Amount at 31 December 2011
Statutory surplus reserve	<u>84,961,353.85</u>	<u>10,126,187.67</u>	<u>-</u>	<u>95,087,541.52</u>

Pursuant to PRC Company Law and the Company's Articles of Association, the Company is required to appropriate 10% of its net profit to the statutory surplus reserve. The appropriation may cease if the balance of the statutory surplus reserve has reached 50% of the Company's registered capital.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (33) RETAINED EARNINGS

	31 December 2012	31 December 2011
Retained earnings at beginning of the year	256,035,761.06	176,929,012.57
Net profit attributable to equity holders of the parent	72,127,189.72	112,872,143.11
Less: Transfer to statutory reserve funds	12,123,268.30	10,126,187.67
Cash dividends payable (note)	<u>26,265,785.50</u>	<u>23,639,206.95</u>
	<u><u>289,773,896.98</u></u>	<u><u>256,035,761.06</u></u>

Note: cash dividends for the previous year were approved at the 2011 and 2012 general meetings.

Pursuant to the resolution of the board of the Company dated 18 March 2011, a cash dividend of RMB0.09 per share based on 262,657,855 shares in total with a nominal value of RMB1 each was paid to all shareholders, which was approved and passed at the 2011 general meeting. The dividend was paid in the mid of year 2011 and reflected in the financial statements for year 2011.

Pursuant to the resolution of the board of the Company dated 16 March 2012, a cash dividend of RMB0.10 per share based on 262,657,855 shares in total with a nominal value of RMB1 each was paid to all shareholders, which was approved and passed at the 2012 general meeting. The dividend was paid in the mid of year 2012 and reflected in the financial statements for year 2012.

Pursuant to the resolution passed by the Board on 22 March 2013, it was proposed by the Board to distribute cash dividend to all shareholders of RMB0.08 per share. On the basis of 277,657,855 shares in total (at nominal value of RMB1 each), cash dividend of RMB22,212,628.40 would be distributed in total. The recommendation above was subject to the approval by the shareholders in the general meeting, and would not be classified as a liability of the Company prior to the approval in the general meeting. Therefore the amount was not reflected in the financial statements this year.



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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (34) MINORITY INTERESTS

Minority interests balance of subsidiaries of the Company is as follows:

	31 December 2012	31 December 2011
Siping Steering	3,250,000.00	3,250,000.00
Beijing Autonics	2,413,637.05	2,246,301.85
Hangzhou New Shibao	<u>11,220,456.71</u>	<u>15,120,001.88</u>
	<u><u>16,884,093.76</u></u>	<u><u>20,616,303.73</u></u>

### (35) REVENUE AND COST OF SALES

Revenue, also the Group's turnover, represents the net invoice value of sold goods less goods returned and trade discount.

Revenue is as follows:

	2012	2011
Revenue from main business	544,845,899.31	623,423,137.12
Revenue from other business	<u>3,538,776.94</u>	<u>2,493,982.09</u>
	<u><u>548,384,676.25</u></u>	<u><u>625,917,119.21</u></u>

Cost of sales is as follows:

	2012	2011
Cost of sales for main business	379,244,389.43	403,659,490.72
Cost of sales for other business	<u>558,324.22</u>	<u>227,627.68</u>
	<u><u>379,802,713.65</u></u>	<u><u>403,887,118.40</u></u>

The above cost of sales include depreciation and amortization expenses amounting to RMB26,107,898.55 (2011: RMB24,469,015.93).

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (35) REVENUE AND COSTS (continued)

Principal operations by products are as follows:

	2012		2011	
	Revenue	Costs	Revenue	Costs
Power recirculating ball steering gears and its components	213,423,648.48	151,122,187.72	262,191,095.26	178,956,835.39
Steering knuckles	74,888,408.24	45,497,404.35	134,406,458.54	80,868,082.74
Power rack-and-pinion steering gears	154,490,019.42	101,843,634.36	151,018,295.02	94,618,115.69
Manual recirculating ball steering gears	11,814,602.21	10,444,497.00	10,691,736.74	9,205,886.64
Spare parts and others	90,229,220.96	70,336,666.00	65,115,551.56	40,010,570.26
	<u>544,845,899.31</u>	<u>379,244,389.43</u>	<u>623,423,137.12</u>	<u>403,659,490.72</u>

Revenue from the five largest customers in 2012 was as follows:

	Amount	Proportion to revenue(%)
FAW Car Co., Ltd.	114,067,910.63	20.80
Anhui Jianghuai Automobile Co., Ltd.	80,840,001.16	14.74
Dintech International Corp., Ltd.	52,542,431.64	9.58
FAW Jiefang Qingdao Automobile Co., Ltd	40,182,290.06	7.33
Dongfeng Liuzhou Motor Co., Ltd	38,133,985.09	6.95
	<u>325,766,618.58</u>	<u>59.40</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (35) REVENUE AND COSTS *(continued)*

Revenue from the five largest customers in 2011 was as follows:

	Amount	Proportion to revenue(%)
FAW Car Co., Ltd.	164,808,106.24	26.33
Shanghai Dintech International Corp., Ltd.	89,684,497.42	14.33
FAW Jiefang Qingdao Auto Co., Ltd.	77,091,795.97	12.32
Anhui Jianghuai Automobile Co., Ltd.	66,831,791.48	10.68
Wuhu Sterling	36,750,390.25	5.87
	<u>435,166,581.36</u>	<u>69.53</u>

### (36) SALES TAXES AND SURCHARGES

	2012	2011
City construction and maintenance tax	1,958,636.72	3,017,590.34
Education surcharges	1,438,114.10	2,086,430.85
Others	30,304.49	52,863.43
	<u>3,427,055.31</u>	<u>5,156,884.62</u>

For the standards of calculation and payment of sales taxes and surcharges, please refer to Note 3.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (37) SELLING EXPENSES

	2012	2011
Transportation cost	12,266,563.88	13,302,721.96
Wages, welfare and bonuses	5,885,182.91	6,704,375.05
Warranty expenses	5,997,980.67	7,842,173.66
Travelling expenses	3,727,388.24	3,167,263.24
Entertainment charge	1,675,782.29	1,906,139.46
Depreciation of fixed assets	422,577.51	361,038.43
Others	3,187,813.57	2,597,827.23
	<u>33,163,289.07</u>	<u>35,881,539.03</u>

### (38) GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Wages, welfare and bonuses	20,905,578.42	15,874,276.14
Including: basic pension insurance	5,032,614.43	4,148,052.41
Medical insurance	3,906,591.70	2,343,718.38
Unemployment insurance	439,864.02	226,490.01
Work injury insurance	218,392.34	58,627.12
Maternity insurance	195,193.53	127,805.91
R&D expenses	16,292,793.29	14,678,574.46
Office cost	4,931,987.67	4,254,776.26
Professional service fee	4,179,706.83	2,943,977.12
Depreciation of fixed assets	4,231,054.40	3,801,084.97
Amortization of intangible assets	3,925,136.65	4,043,308.92
Other taxation	3,545,068.97	3,280,687.13
Travelling expenses	1,735,350.92	1,571,936.46
Entertainment charge	1,087,109.84	955,116.36
Others	1,154,568.06	3,149,441.78
	<u>61,988,355.05</u>	<u>54,553,179.60</u>

The above general and administrative expenses include auditors' remuneration amounting to RMB1,000,000.00 (2011: RMB1,200,000.00).

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (39) FINANCIAL EXPENSES

	2012	2011
Interest expense	9,120,319.28	6,727,724.17
Including: interests of other loans fully repayable within 5 years	8,978,819.28	6,586,224.17
interests of other loans not fully repayable within 5 years	141,500.00	141,500.00
Less: interest income	631,257.41	880,761.72
Others	80,320.90	(152,068.77)
	<u>8,569,382.77</u>	<u>5,694,893.68</u>

### (40) ASSET IMPAIRMENT LOSSES

	2012	2011
Reversal of provision for bad debts	(1,413,112.92)	(89,759.46)
Reversal of provision for impairment of inventories	(568,706.04)	(924,277.70)
	<u>(1,981,818.96)</u>	<u>(1,014,037.16)</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (41) INVESTMENT GAINS

	2012	2011
Unlisted investments:		
Investment (losses) from long-term equity investments under equity method of accounting	<u>(2,320,296.63)</u>	<u>(127,683.62)</u>
Including: Investment (losses) from associates	<u>(2,320,296.63)</u>	<u>(127,683.62)</u>

In 2012 and 2011, the Group had no investment income from long-term equity investments under cost method of accounting.

In 2012 and 2011, none of the Group's investment losses from long-term equity investments under equity method of accounting accounted for over 5% of the total investment.

### (42) NON-OPERATING INCOME

	2012	2011
Gains from disposal of non-current assets	9,233,699.03	5,641.63
Government grants	9,950,660.37	5,195,677.72
Others	<u>1,715,259.47</u>	<u>204,730.67</u>
	<u>20,899,618.87</u>	<u>5,406,050.02</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (42) NON-OPERATING INCOME *(continued)*

Government grants recognized in profit or loss during the period were as follows:

		2012	2011
Fund for key industry development of			
Hangzhou city	(1)	3,452,000.00	-
Listing incentives	(2)	3,000,000.00	-
Subsidies for investment plan for			
adjustment and improvement project for			
traditional industry bases including the			
Northeast Area within National budget	(3)	2,595,000.00	1,072,500.00
Development fund appropriation of			
the Bureau of Finance of Jilin Province	(4)	600,000.00	-
Subsidies for the precious casting			
and processing of automotive			
components project	(5)	122,960.37	40,734.32
Famous Brand awards given by Technical			
Supervision Bureau of Jilin Province	(6)	100,000.00	50,000.00
Subsidies for enterprises housing construction	(7)	57,700.00	-
Awards given by Safe Production			
Supervision Bureau of Yiwu City	(8)	10,000.00	-
Fund for selected science and technology			
activities by students studying abroad			
of 2012	(9)	10,000.00	-
Patent subsidies	(10)	3,000.00	6,000.00
Financial subsidy fro economic compensation			
of the termination of employment			
relationship with employees by enterprise	(11)	-	3,448,130.40
Science and technology awards from			
Hangzhou Economic and Technological			
Development Zone	(12)	-	400,000.00
Steering knuckle system for sedans	(13)	-	173,313.00
Patent subsidies from Science and			
Technology Bureau of Jilin Province	(14)	-	5,000.00
		<u>9,950,660.37</u>	<u>5,195,677.72</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (42) NON-OPERATING INCOME (continued)

- (1) Pursuant to the "Notice issued in 2011 for the Fifth Batch of Hangzhou Key Industry Development Funds (《關於下達2011年第五批杭州市重點產業發展資金的通知》)" (Hang Jing Kai Jing [2012] No. 235, Hang Jing Kai Cai [2012] No. 98) jointly by Hangzhou Economic and Technological Development Zone Economic Development Board and Finance Bureau of the Hangzhou Economic and Technological Development Zone on 9 October 2012, Hangzhou Shibao received key industry development funds of RMB3,452,000.00 on 1 November 2012.
- (2) Pursuant to "Certain Opinion for Further Promotion of Activities in Listed Enterprises (《關於進一步推進企業上市工作的若干意見》)" (Shi Wei [2010] No. 28) jointly issued by Committee of CCCP at Yiwu and the People's Government of Yiwu on 2 November 2010, Zhejiang Shibao was granted incentives on listing of RMB 3,000,000.00 on 7 December 2012.
- (3) Pursuant to "Reply of the Office of NDRC on Investment Project for Adjustment and Improvement for Traditional Industry Bases Including the Northeast Area within National Budget in 2010" (《國家發展改革委辦公廳關於東北等老工業基地調整改造2010年中央預算內投資項目的復函》) issued by NDRC (Fa Gai Ban Chan Ye [2010] No.2684), Jilin Shibao received subsidies for the precious casting and processing of automotive components project of RMB24,900,000.00 in total on 27 April 2011, 8 June 2011, 11 August 2011, 31 December 2011 and 16 October 2012 respectively. Revenues of RMB2,595,000.00 and RMB1,072,500.00 were recognized in 2012 and 2011 respectively.
- (4) Pursuant to the "Notice issued in 2010 for the Special Funds on the Development of Automobile Industry in Jilin Province (《關於下達2010年吉林省汽車產業發展專項資金的通知》)" (Ji Cai Qi Zhi [2010] No. 1244) issued by the Office of Finance in Jilin Province on 2 October 2010 and the "Notice issued in 2012 for the Development Funds of Small and Medium Enterprises with local features in Jilin Province (《關於下達2012年吉林省地方特色產業中小企業發展資金的通知》)" issued by the Office of Finance in Jilin Province on 16 October 2012, Siping Steering received development funds of RMB 600,000.00 on 31 December 2012.
- (5) Pursuant to "Description of Subsidy Funds for the Precious Casting and Processing of Automotive Components Project"(《關於汽車零部件精密鑄件及加工建設項目補貼資金的說明》) issued by Siping Tiedong Economic and Technology Development Zone Management Committee, Jilin Shibao received subsidies for the precious casting and processing of automotive components project of RMB2,000,000.00 and RMB3,225,240.00 on 1 February 2009 and 24 December 2009 respectively, totaling RMB5,225,240.00. Revenues of RMB122,960.37 and RMB40,734.32 were recognized in 2012 and 2011 respectively.
- (6) Pursuant to "Decision on Rewarding Manufacturers with Famous Brand Products in Jilin Province in 2010 by Jilin Province Famous Brand Products Promotion Commission" (《吉林省名牌產品推進委員會關於表彰2010年吉林省名牌產品生產企業的決定》) issued by the Jilin Province Famous Brand Products Promotion Commission on 20 December 2010, Siping Steering received Famous Brand awards of RMB50,000.00 and RMB100,000.00 on 11 May 2011 and 3 October 2012 respectively.



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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (42) NON-OPERATING INCOME *(continued)*

- (7) Pursuant to the "Notice on the List of the First Batch of Grants released 2011 Corporate Housing Relief Projects of the Hangzhou Economic and Technological Development Zone (《關於公佈杭州經濟技術開發區2011年度企業安居工程第一批補助名單的通知》)" (Hang Jing Kai Gan Fa [2012] No. 118) issued by the Management Committee of Hangzhou Economic and Technological Development Zone on 13 June 2012, Hangzhou Shibao received housing relief projects grants of RMB 57,700.00 on 17 July 2012.
- (8) Pursuant to the "Notice on Evaluation for Production Safety Management Standard Enterprise and Safety Production Management Model Enterprises by Yiwu Production Safety Commission Office in the year 2011 (《義烏市安全生產委員會辦公室關於開展2011年度安全生產管理達標企業和安全生產管理示範企業考評的通知》)" (Yi An Ban [2011] No. 39) issued by Yiwu City Administration of Work Safety on 11 January 2012, Zhejiang Shibao received incentives on Model Enterprises of RMB 10,000.00 from Yiwu City Administration of Work Safety on 26 April 2012.
- (9) Pursuant to the "Notice about Activities Reports of Students Studying Science and Technology Projects Overseas Eligible for Application of Sponsorship for the year of 2012 (《關於2012年留學人員科技活動項目擇優資助經費申報工作的通知》)" (Ren She Zhuan Ji Si Han [2011] No. 159) issued by The Hangzhou Human Resources and Social Security Bureau on 9 February 2012, Hangzhou New Shibao received sponsorship on students studying science and technology projects overseas of RMB 10,000.00 for the year of 2012 on 30 November 2012.
- (10) Pursuant to "Hangzhou Patent Special Funds Management Approach" (《杭州市專利專項資金管理辦法》) (Hang Zheng Ban Han Zheng [2009] No.287) issued by the Science and Technology Bureau and Finance Bureau of Hangzhou on 20 June 2009, Hangzhou Shibao received patent subsidies of RMB6,000.00 on 18 July 2011; patent subsidies of RMB3,000.00 issued by the Hangzhou Economic and Technology Development Zone on 30 May 2012.
- (11) Pursuant to "Issues on the Reform Pilot Scheme Relating to Large Collective Enterprises Including Siping City No.3 Steel Sling Factory" (《關於四平市第三鋼繩廠等廠辦大集體企業改革試點的有關問題》) meeting minutes for the special topic of Siping people's government office dated 9 December 2010, Zhejiang Shibao received a financial subsidy for the economic compensation of the termination of employment relationship with employees of RMB3,448,130.40 on 21 January 2011.
- (12) Pursuant to Policies on Encouraging Science and Technology Development (2010)" (《關於鼓勵科技發展的若干政策(2010年度)》) implemented on 1 January 2010 by the Hangzhou Economic and Technology Development Zone, Hangzhou Shibao received science and technology awards of RMB400,000.00 on 12 February 2011.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (42) NON-OPERATING INCOME (continued)

- (13) Pursuant to "Forward of Notice on First Batch of Specific Fund (Treasury Bond) Investment Plan for Adjustment and Improvement Project for Traditional Industry Bases Including the Northeast Area within National Budget Issued by NDRC in 2004" (《轉發國家發展改革委關於下達2004年東北地區等老工業基地調整改造專項第一批國家預算內專項資金(國債)投資計劃的通知》) (Ji Fa Gai Tou Zi Zi [2004] No. 801) issued by the Development and Reform Commission of Jilin Province on 9 November 2004, Siping Steering received subsidies for its steering knuckle project for sedans of RMB5,670,000.00 on 28 December 2004. Revenues of RMB173,313.00 was recognized in 2011.
- (14) Pursuant to "Notice on Event Fund Relating to Patent Development Fund of Jilin Province for 2010" (《關於下達2010年度〈吉林省專利發展資金〉項目經費的通知》) issued by the Science and Technology Bureau of Jilin Province on 10 February 2011, Siping Steering received patent subsidies of RMB5,000.00 on 18 March 2011.

### (43) NON-OPERATING EXPENSES

	2012	2011
Loss on the disposal of fixed assets	163,092.08	318,526.97
Water conservancy fund	357,387.35	392,983.21
Others	1,978,020.17	429,901.45
	<u>2,498,499.60</u>	<u>1,141,411.63</u>

### (44) INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong in 2012 (2011: Nil).

	2012	2011
Current income tax expense	12,808,929.79	13,267,232.70
Deferred income tax expense	(2,207,387.54)	1,979,265.83
	<u>10,601,542.25</u>	<u>15,246,498.53</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (44) INCOME TAX EXPENSES *(continued)*

Relationship between income tax expense and total profit:

	2012	2011
Total profit	79,496,522.00	125,894,495.81
Tax payable by the Company and its subsidiaries under the statutory rate	19,874,130.50	31,473,623.95
Tax adjustment during the year as a result of events in the previous year	–	(8,963,243.85)
Tax on loss of an associate	580,173.23	82,077.26
Tax on non-deductible expense	981,445.93	453,281.58
Effect of different tax rates applicable to certain subsidiaries	(8,341,770.25)	(12,079,320.13)
Unrecognized losses deductible for tax	3,143,749.59	5,909,556.26
Tax-exempt income	(679,490.09)	(268,125.00)
Additional deduction for R&D expenses	(1,278,364.04)	(1,361,351.54)
Use of previous deductible loss	(789,196.29)	–
Recognition of previous deductible loss	(2,889,136.33)	–
	<u>10,601,542.25</u>	<u>15,246,498.53</u>
Tax charge at the Group's effective rate		

The income tax of the Group is estimated based on the taxable income in Mainland China and applicable tax rates, please refer to Note 3.

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (44) INCOME TAX EXPENSES (continued)

Siping Steering met "Implementation Provisions Regarding Separation between Main Business and Auxiliary Business of Large and Medium-sized State-owned Enterprises, Reform of the System of Auxiliary Business and Arrangement for Redundant Workers" (《關於國有大中型企業主輔分離輔業改制分流安置富餘人員的實施辦法》) (Guo Jing Mao Qi Gai [2002] No.859) from 1 January 2003 to 30 June 2004, and it was entitled to income tax exemption. However, as it did not get the approval reply from the tax authority during the year, Siping Steering fully provided for the corporate income tax for the relevant period. In November 2011, Siping Steering got the approval reply from the State Administration of Taxation in the Siping Economic Development Zone, which agreed to implement the provisions of "Implementation Provisions Regarding Separation between Main Business and Auxiliary Business of Large and Medium-sized State-owned Enterprises, Reform of the System of Auxiliary Business and Arrangement for Redundant Workers" (《關於國有大中型企業主輔分離輔業改制分流安置富餘人員的實施辦法》) (Guo Jing Mao Qi Gai [2002] No.859) from 1 January 2003 to 30 June 2004 to exempt Siping Steering from corporate income tax, and therefore Siping Steering offset the provision for corporate income tax of RMB8,963,243.85 for the relevant period.

### (45) EARNINGS PER SHARE

The basic earnings per share is calculated based on the net profit attributable to the ordinary equity holders of the Company in the current period and weighted average number of the ordinary shares in issue.

In 2012 and 2011, the Company had no potential diluted ordinary shares.

The detailed calculation information for basic earnings per share is presented as follows:

	2012	2011
Earnings		
Net profits attributable to the ordinary equity holders of the Company	<u>72,127,189.72</u>	<u>112,872,143.11</u>
Shares		
Weighted average of ordinary shares issued by the Company	<u>265,157,855.00</u>	<u>262,657,855.00</u>
Basic earnings per share (RMB)	<u>0.27</u>	<u>0.43</u>
Diluted earnings per share (RMB)	<u>0.27</u>	<u>0.43</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (46) NOTES TO ITEMS OF THE STATEMENT OF CASH FLOWS

Other cash received in relation to operating activities:

	2012	2011
Recovery of restricted monetary funds	751,620.84	13,841,098.89
Subsidy income	4,232,700.00	3,909,130.40
Non-operating income	984,805.85	204,730.67
Others	652,228.60	291,057.97
	<u>6,621,355.29</u>	<u>18,246,017.93</u>
Total	<u><u>6,621,355.29</u></u>	<u><u>18,246,017.93</u></u>

Other cash payable in relation to operating activities:

	2012	2011
Selling expense	26,769,626.37	30,967,242.38
General and administrative expenses	24,287,518.43	25,580,399.55
Compensation of the termination of employment relationship with employees by enterprise	-	4,310,163.00
Non-operating expense	2,335,407.52	822,884.66
Financial expenses	80,320.90	138,989.20
Petty cash advanced	-	317,237.73
Others	4,959,105.61	4,525,009.31
	<u>4,959,105.61</u>	<u>4,525,009.31</u>
Total	<u><u>58,431,978.83</u></u>	<u><u>66,661,925.83</u></u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (46) NOTES TO ITEMS OF THE STATEMENT OF CASH FLOWS (continued)

Other cash received in relation to investment activities:

	2012	2011
Interest income	631,257.41	880,761.72
Subsidy income	<u>5,000,000.00</u>	<u>24,900,000.00</u>
Total	<u><u>5,631,257.41</u></u>	<u><u>25,780,761.72</u></u>

Other cash received in relation to financing activities:

	2012	2011
Listing incentives	<u><u>3,000,000.00</u></u>	<u><u>—</u></u>

Other cash paid in relation to financing activities:

	2012	2011
Listing expenses	<u><u>6,653,935.75</u></u>	<u><u>2,334,256.76</u></u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (47) SUPPLEMENTAL INFORMATION ON THE STATEMENT OF CASH FLOWS

(1) Supplemental information on the statement of cash flows

Reconciliation of net profit to cash flows from operating activities:

	2012	2011
Net profit	68,894,979.75	110,647,997.28
Add:		
Provision/(reversal) for impairment of assets	(1,981,818.96)	(1,014,037.17)
Depreciation of fixed assets	31,461,993.67	28,386,352.93
Amortisation of intangible assets	4,212,537.85	4,288,095.32
Amortisation of deferred revenue	(2,717,960.37)	(1,286,547.32)
Unrealized gains sold to an associate	396.28	200,625.44
Losses/(gains) on disposal of fixed assets, intangible assets and other long-term assets	(9,070,606.95)	312,885.34
Government grant	(3,000,000.00)	-
Finance expenses	8,489,061.87	5,846,962.45
Investment losses	2,320,296.63	127,683.62
Decrease/(increase) in deferred income tax assets	(2,015,137.54)	2,171,515.83
Decrease in deferred income tax liabilities	(192,250.00)	(192,250.00)
Decrease/(increase) in inventories	(13,480,791.12)	16,512,953.62
Increase in operating receivables	(62,226,191.71)	(142,408,274.89)
Decrease/(Increase) in operating payables	(2,492,210.24)	21,364,337.96
Net cash flows from operating activities	<u>18,202,299.16</u>	<u>44,958,300.41</u>

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## 5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (47) SUPPLEMENTAL INFORMATION ON THE STATEMENT OF CASH FLOWS *(continued)*

#### (1) Supplemental information on the statement of cash flows *(continued)*

Net change in cash and cash equivalents:

	31 December 2012	31 December 2011
Closing balance of cash	76,773,167.14	40,711,980.73
Less: Opening balance of cash	<u>40,711,980.73</u>	<u>48,938,264.15</u>
Net increase/(decrease) in cash and cash equivalents	<u><u>36,061,186.41</u></u>	<u><u>(8,226,283.42)</u></u>

#### (2) Cash and cash equivalents:

	31 December 2012	31 December 2011
Cash		
Including: Cash on hand	80,461.14	153,654.33
Bank deposit readily available	<u>76,692,706.00</u>	<u>40,558,326.40</u>
Closing balance of cash and cash equivalents	<u><u>76,773,167.14</u></u>	<u><u>40,711,980.73</u></u>



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## 6. OPERATING SEGMENT INFORMATION

### OPERATING SEGMENT

For business management purposes, the Group is organized into one single business unit that represents primarily sale of automotive steering products and its corresponding components in Mainland China. Accordingly, no detailed information about operating segment is presented.

### OTHER INFORMATION

#### Geographical information

All external revenue of the Group was generated from Mainland China.

All non-current assets of the Group were located in Mainland China.

#### Information about major customers

Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Group in 2012 is as follows:

	Amount	Proportion to revenue (%)
FAW Car Co., Ltd.	114,067,910.63	20.80
Anhui Jianghuai Automobile Co., Ltd.	80,840,001.16	14.74

Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Group in 2011 is as follows:

	Amount	Proportion to revenue (%)
FAW Car Co., Ltd.	164,808,106.24	26.33
Shanghai Dintech International Corp., Ltd.	89,684,497.42	14.33
FAW Jiefang Qingdao Auto Co., Ltd.	77,091,795.97	12.32
Anhui Jianghuai Automobile Co., Ltd.	66,831,791.48	10.68

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## 7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS

### (1) ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable is as follows:

	31 December 2012	31 December 2011
Within 1 year	19,391,554.80	18,242,228.66
1-2 years	-	97,042.94
2-3 years	94,702.91	-
Over 3 years	<u>292,979.00</u>	<u>292,979.00</u>
	19,779,236.71	18,632,250.60
Less: Provision for impairment	<u>(387,681.91)</u>	<u>(390,021.94)</u>
	<u><u>19,391,554.80</u></u>	<u><u>18,242,228.66</u></u>

The movements in provision for impairment of accounts receivable are as follow:

	At the beginning of year	Provision during the year	Reversal during the year	At the end of year
2012	<u>390,021.94</u>	<u>-</u>	<u>(2,340.03)</u>	<u>387,681.91</u>
2011	<u>353,743.20</u>	<u>36,278.74</u>	<u>-</u>	<u>390,021.94</u>

Analysis of accounts receivable by categories are as follows:

	31 December 2012			
	Carrying balance amount	(%)	Bad debt provision amount	(%)
Individually significant balance	19,391,554.80	98.04	-	-
Individually insignificant but significant based on credit risk characteristics	387,681.91	1.96	387,681.91	100.00
Other insignificant balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>19,779,236.71</u></u>	<u><u>100.00</u></u>	<u><u>387,681.91</u></u>	

# NOTES TO THE FINANCIAL STATEMENTS

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## 7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

### (1) ACCOUNTS RECEIVABLE (continued)

	31 December 2011			
	Carrying balance amount	(%)	Bad debt provision amount	(%)
Individually significant balance	18,242,228.66	97.91	-	-
Individually insignificant but significant based on credit risk characteristics	390,021.94	2.09	390,021.94	100.00
Other insignificant balances	-	-	-	-
	<u>18,632,250.60</u>	<u>100.00</u>	<u>390,021.94</u>	

As at 31 December 2012 and 31 December 2011, no significant accounts receivable was reversed or recovered.

In 2012 and 2011, no significant accounts receivable was written off.

As at 31 December 2012 and 31 December 2011, the Group did not hold accounts receivable for shareholding units with 5% (inclusive) and more voting rights of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

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## 7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

### (1) ACCOUNTS RECEIVABLE (continued)

As at 31 December 2012, the 5 largest accounts receivable are listed as follows:

	Relationship with the Group	Amount	Ageing	Percentage of total accounts receivable (%)
Wuhu Sterling Steering System Co., Ltd.	Associated company	19,391,554.80	Within 1 year	98.04
Ganzhou Jianghuan Automobile Manufacturing Co., Ltd.	Third party customer	125,000.00	Over 3 years	0.63
Nanjing Nanqi Automotive Steering Co., Ltd.	Third party customer	94,702.94	2-3 years	0.48
Hubei Sanhuan Company Sepcial Vehicle Plant	Third party customer	43,400.00	Over 3 years	0.22
Dongfeng Automobile Transmission Shaft Co., Ltd. Shiyuan Sub-company	Third party customer	36,000.00	Over 3 years	0.18
		19,690,657.74		99.55

As at 31 December 2011, the 5 largest accounts receivable are listed as follows:

	Relationship with the Group	Amount	Ageing	Percentage of total accounts receivable (%)
Wuhu Sterling Steering System Co., Ltd.	Associated company	18,242,228.66	Within 1 year	97.91
Ganzhou Jianghuan Automobile Manufacturing Co., Ltd.	Third party customer	125,000.00	Over 3 years	0.67
Nanjing Donghua Automotive Steering Co., Ltd.	Third party customer	97,042.94	1-2 years	0.52
Hubei Sanhuan Company Sepcial Vehicle Plant	Third party customer	43,400.00	Over 3 years	0.23
Dongfeng Shiyuan Transmission Shaft Company	Third party customer	36,000.00	Over 3 years	0.19
		18,543,671.60		99.52

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## 7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

### (1) ACCOUNTS RECEIVABLE (continued)

As at 31 December 2012 and 31 December 2011, accounts due from related parties is as follows:

	31 December 2012	31 December 2011
Wuhu Sterling Steering System Co., Ltd.	<u>19,391,554.80</u>	<u>18,242,228.66</u>

In 2012 and 2011, the Company did not have other receivables transferred as financial assets for derecognition.

### (2) OTHER RECEIVABLES

Ageing analysis of other receivables is as follows:

	31 December 2012	31 December 2011
Within 1 year	115,435,363.16	85,874,740.18
1–2 years	28,725,029.60	70,005,762.60
2–3 years	44,729,393.80	67,775,909.80
Over 3 years	<u>42,526,623.42</u>	<u>25,447.21</u>
	231,416,409.98	223,681,859.79
Less: bad debt provision for other receivables	<u>–</u>	<u>–</u>
	<u>231,416,409.98</u>	<u>223,681,859.79</u>

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## 7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

### (2) OTHER RECEIVABLES (continued)

Analysis for other receivables by categories is as follows:

	31 December 2012			
	Carrying amount	(%)	Bad debt provision amount	(%)
Individually significant balance	231,178,887.12	99.90	-	-
Individually insignificant but significant based on credit risk characteristics	102,259.22	0.04	-	-
Other insignificant other receivables	135,263.64	0.06	-	-
	<u>231,416,409.98</u>	<u>100.00</u>	<u>-</u>	
	31 December 2011			
	Carrying amount	(%)	Bad debt provision amount	(%)
Individually significant balance	223,358,374.92	99.86	-	-
Individually insignificant but significant based on credit risk characteristics	29,159.22	0.01	-	-
Other insignificant other receivables	294,325.65	0.13	-	-
	<u>223,681,859.79</u>	<u>100.00</u>	<u>-</u>	

Individually insignificant but significant based on credit risk characteristics mainly refer to the individually insignificant receivables with long ageing.

In 2012 and 2011, the Company did not have any other receivables written off.

As at 31 December 2012 and 31 December 2011, the Company did not hold other receivables for shareholding units with 5% (inclusive) and more voting rights of the Company.

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## 7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

### (2) OTHER RECEIVABLES (continued)

In the opinion of the Management of the Company, as at 31 December 2012 and 31 December 2011, no need to made impairment provision for the abovementioned other receivables.

As at 31 December 2012 and 31 December 2011, the Company did not hold other receivables for shareholding units with 5% (inclusive) and more voting rights of the Company.

As at 31 December 2012, the 5 largest other receivables are as follows:

	Relationship with the Company	Amount	Ageing	Percentage of total (%)
Hangzhou Shibao	Subsidiary of the Company	49,808,787.59	Within 3 years	21.52
Jilin Shibao	Subsidiary of the Company	94,790,000.00	Within 3 years	40.96
Hangzhou New Shibao	Subsidiary of the Company	63,000,000.00	Within 1 year	27.23
Siping Steering	Subsidiary of the Company	17,180,099.53	Within 1 year	7.42
Beijing Autonics	Subsidiary of the Company	6,400,000.00	Within 1 year	2.77
		<u>231,178,887.12</u>		<u>99.90</u>

As at 31 December 2011, the 5 largest other receivables are as follows:

	Relationship with the Company	Amount	Ageing	Percentage of total (%)
Hangzhou Shibao	Subsidiary of the Company	100,357,960.39	Within 3 years	44.87
Jilin Shibao	Subsidiary of the Company	66,070,000.00	Within 3 years	29.54
Hangzhou New Shibao	Subsidiary of the Company	33,000,000.00	Within 1 year	14.75
Siping Steering	Subsidiary of the Company	17,696,157.77	Within 1 year	7.91
Beijing Autonic	Subsidiary of the Company	3,900,000.00	Within 1 year	1.74
		<u>221,024,118.16</u>		<u>98.81</u>

In 2012 and 2011, the Company did not have other receivables transferred as financial assets for derecognition.

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## 7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

### (3) LONG-TERM EQUITY INVESTMENTS

		31 December 2012	31 December 2011
Unlisted investments:			
Equity investments under cost method of accounting – subsidiaries	(i)	128,000,000.00	128,000,000.00
Equity investments under equity method of accounting – equity holding in associates	(ii)	<u>9,376,207.19</u>	<u>11,696,900.10</u>
Balance at the end of year		<u><u>137,376,207.19</u></u>	<u><u>139,696,900.10</u></u>

#### (i) Subsidiaries

Investee	31 December 2012 Carrying amount	31 December 2011 Carrying amount	Percentage in investee's registered capital
Hangzhou Shibao	40,750,000.00	40,750,000.00	Note
Siping Steering	8,250,000.00	8,250,000.00	Note
Jilin Shibao	30,000,000.00	30,000,000.00	Note
Hangzhou New Shibao	42,000,000.00	42,000,000.00	Note
Beijing Autonics	<u>7,000,000.00</u>	<u>7,000,000.00</u>	Note
	<u><u>128,000,000.00</u></u>	<u><u>126,850,000.00</u></u>	

Note: details are set out in Note 4.(1).



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## 7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

### (3) LONG-TERM EQUITY INVESTMENTS (continued)

#### (ii) Equity in an associate

Investee	31 December 2012 Carrying amount	31 December 2011 Carrying amount	Percentage in investee's registered capital
Wuhu Sterling	<u>9,376,207.19</u>	<u>11,696,900.10</u>	Note

*Note:* According to the capital investment agreement, The Company paid its contribution of RMB 7,200,000 before 10 November 2004 and held 36% of equity of Wuhu Sterling. On 8 April 2011, the Company and Sun Ya Hong (one of the shareholders of Wuhu Sterling) entered into an equity transfer agreement, pursuant to which Sun Ya Hong agreed to transfer 10% of the equity of Wuhu Sterling to the Company. The Company paid the transfer consideration in full on 21 November 2011 and increased its equity shareholding to 46% in Wuhu Sterling.

On 30 January 2013, the Company entered into an Equity Transfer Contract with Chery Technology, the existing shareholder of Wuhu Sterling, pursuant to which Chery Technology transferred 6% of equity interests held by it in Wuhu Sterling to the Company at a consideration of RMB3,000,000.00; at the same time, the Company increased its capital contribution to Wuhu Sterling and entered into a Capital Contribution Agreement with other shareholders of Wuhu Sterling. The Company increased its investment by RMB7,000,000.00, of which RMB2,800,000.00 was contributed as registered capital and RMB4,200,000.00 was contributed as capital surplus. Upon the completion of the Transactions, the registered capital of Wuhu Sterling will be increased to RMB22,800,000.00, among which: the Company paid RMB13,200,000.00 of the registered capital and holds 57.89% of the equity interests; Chery Technology paid RMB6,600,000.00 of the registered capital and holds 28.95% of the equity interests; An Qing Hui paid RMB3,000,000.00 of the registered capital and holds 13.16% of the equity interests. The Acquisition is subject to the approval being obtained from the competent state assets administration authorities of Chery Technology, and being handled in accordance with the procedures stipulated in the relevant laws and regulations regarding to the transfer of state-owned assets.

Details of major financial information of the Company's associates are set out in Note 5. (9).

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## 7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

### (4) REVENUE AND OPERATING COST

Revenue is as follows:

	2012	2011
Revenue from main business	<u>40,232,232.33</u>	<u>46,431,236.29</u>

Cost of sales is as follows:

	2012	2011
Cost of sales for main business	<u>28,768,542.26</u>	<u>35,782,492.96</u>

### (5) INVESTMENT GAINS

	2012	2011
Unlisted investment:		
Investment gains from long-term equity investments under cost method of accounting		
– Hangzhou Shibao	50,000,000.00	14,850,000.00
– Siping Steering	<u>15,000,000.00</u>	<u>15,000,000.00</u>
	<u>65,000,000.00</u>	<u>29,850,000.00</u>

Unlisted investment:		
Investment losses from long-term equity investments under equity method of accounting		
– Wuhu Sterling	<u>(2,320,692.91)</u>	<u>(942,414.00)</u>
	<u>62,679,307.09</u>	<u>28,907,586.00</u>

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## 8. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (1) PARENT COMPANY

Name	Place of registration	Corporate type	Corporate representative	Business nature	Registered capital	Shareholding percent. in the Company	Voting proportion in the Company	Organization code
Zhejiang Shibao Holding Group Co., Ltd.	Yiwu city	Limited liability	Zhang Shi Zhong	industrial investment	50 million	59.57%	59.57%	75193535-X

The ultimate holding parties of the Group are Zhang Shi Quan and his family members, i.e., Zhang Bao Yi, Tang Hao Han, Zhang Lan Jun and Zhang Shi Zhong.

### (2) SUBSIDIARY

The Company's subsidiaries are listed in Note 4 – consolidation scope of consolidated financial statement.

Other receivables from subsidiaries in current assets of the Company were RMB231,178,887.12 (2011: RMB221,024,118.16), which were unsecured, interest free and has no fixed repayment time.

### (3) ASSOCIATE

Associates are listed in Note 5. (9).

### (4) OTHER RELATED PARTIES

	Relationship
Zhang Shi Quan and his family members, i.e., Zhang Bao Yi, Tang Hao Han, Zhang Lan Jun and Zhang Shi Zhong	Ultimate holding parties
Zhang Hai Qin	Family members with a close relation with main investors

# NOTES TO THE FINANCIAL STATEMENTS

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## 8. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### (5) MAJOR TRANSACTIONS BETWEEN THE GROUP AND RELATED PARTIES

#### (a) Transaction of goods and services with related parties

##### Purchase of goods from related parties

	2012	2011
Wuhu Sterling	<u>680,402.57</u>	<u>698,434.95</u>

In 2012, purchase of goods from related parties accounted for 0.23% of the Group's total purchases (2011: 0.23%).

In 2012 and 2011, the Group purchased the steering gear from Wuhu Sterling Steering System Co., Ltd. at the market price.

##### Sales of goods to related parties

	2012	2011
Wuhu Sterling	<u>27,934,012.86</u>	<u>36,750,390.25</u>

In 2012, sales of goods to related parties accounted for 5.10% of the Group's total sales (2011: 5.87%).

In 2012 and 2011, the Group sold the spare parts and fittings to Wuhu Sterling Steering System Co., Ltd. at the market price.

#### (b) Equity transactions with related parties

##### Purchase of equity from related parties

The Company purchased the 1% equity in Hangzhou Shibao from Zhang Hai Qin on 11 March 2011 at the consideration of RMB1.15 million, which was determined with reference to the net asset of Hangzhou Shibao as at 31 December 2010 after deduction of the distributed profits of 2010.

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## 8. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### (5) MAJOR TRANSACTIONS BETWEEN THE GROUP AND RELATED PARTIES *(continued)*

#### (b) Equity transactions with related parties *(continued)*

On 17 May 2012, the Company and Zhejiang Shibao Holding entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire 90% equity interest in Changchun Shili Automotive Brake Parts Co., Ltd. ("Changchun Shili Automotive") for a total consideration of RMB10,467,600. The completion of the acquisition shall take place within six months after the listing and commencement of trading of the A Shares on the Shenzhen Stock Exchange. As at the date of the announcement, equity interest of Changchun Shili Automotive is owned as to 90% by Zhejiang Shibao Holding and 10% by Changchun Mengjia Automotive Parts Company Ltd. Upon completion of the Acquisition Agreement, Changchun Shili Automotive will become a subsidiary of the Company and the accounts of which will be consolidated into the accounts of the Group.

On 30 January 2013, the Company entered into an Equity Transfer Contract with Chery Technology, the existing shareholder of Wuhu Sterling, pursuant to which Chery Technology transferred 6% of equity interests held by it in Wuhu Sterling to the Company at a consideration of RMB3,000,000; at the same time, the Company increased its capital contribution to Wuhu Sterling and entered into a Capital Contribution Agreement with other shareholders of Wuhu Sterling. The Company increased its investment by RMB7,000,000, of which RMB2,800,000 was contributed as registered capital and RMB4,200,000 was contributed as capital surplus. Upon the completion of the Transactions, the registered capital of Wuhu Sterling will be increased to RMB22,800,000, among which: the Company paid RMB13,200,000 of the registered capital and holds 57.89% of the equity interests; Chery Technology paid RMB6,600,000 of the registered capital and holds 28.95% of the equity interests; An Qing Hui paid RMB3,000,000 of the registered capital and holds 13.16% of the equity interests. The Acquisition is subject to the approval being obtained from the competent state assets administration authorities of Chery Technology, and being handled in accordance with the procedures stipulated in the relevant laws and regulations regarding to the transfer of state-owned assets.

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## 8. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### (5) MAJOR TRANSACTIONS BETWEEN THE GROUP AND RELATED PARTIES *(continued)*

#### (c) Guarantee with related parties

*Receipt of guarantee from related parties*

31 December 2012

	Guaranteed amount ('0,000)	Commencement date of guarantee	Expiry date of guarantee	Guarantee fully fulfilled
Zhejiang Shibao Holding Group Co., Ltd.	9,000	23-Aug-2011	26-Mar-2015	No
Zhejiang Shibao Holding Group Co., Ltd.	6,000	16-Apr-2012	25-Jun-2015	No
Zhejiang Shibao Holding Group Co., Ltd.	3,000	3-Sep-2012	3-Sep-2015	No
Zhang Shi Quan	9,000	23-Aug-2011	26-Mar-2015	No
Zhejiang Shibao Holding Group Co., Ltd.	9,900	17-Sep-2012	28-Nov-2015	No

As at 31 December 2012, Zhejiang Shibao Holding Group Co., Ltd. provided a maximum guarantee of bank credit business to the Group, and the maximum principal balance of secured claims was RMB259 million. The Group's bank borrowings drawn and outstanding under this guarantee were RMB126.50 million. Zhang Shi Quan provided joint and several liability guarantees for the bank borrowings of the Group amounting to RMB16.5 million.

31 December 2011

	Guaranteed amount ('0,000)	Commencement date of guarantee	Expiry date of guarantee	Guarantee fully fulfilled
Zhejiang Shibao Holding Group Co., Ltd.	2,000	29-Apr-2010	18-Apr-2014	No
Zhejiang Shibao Holding Group Co., Ltd.	3,000	4-May-2010	17-Apr-2014	No
Zhejiang Shibao Holding Group Co., Ltd.	9,000	23-Aug-2011	4-Sep-2014	No
Zhang Shi Quan	7,500	11-Apr-2011	10-Oct-2013	No
Zhang Shi Quan	2,500	18-Apr-2011	17-Apr-2014	No
Zhang Shi Quan	500	19-Apr-2011	18-Apr-2014	No
Zhang Shi Quan	9,000	23-Aug-2011	4-Sep-2014	No

As at 31 December 2011, Zhejiang Shibao Holding Group Co., Ltd. provided a maximum guarantee of bank credit business to the Group, and the maximum principal balance of secured claims was RMB140 million. The Group's bank borrowings drawn and outstanding under this guarantee were RMB60 million. Zhang Shi Quan provided joint and several liability guarantees for the bank borrowings of the Group amounting to RMB60 million.

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## 8. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### (5) MAJOR TRANSACTIONS BETWEEN THE GROUP AND RELATED PARTIES *(continued)*

#### (c) Guarantee with related parties *(continued)*

##### *Provision of guarantee to related parties*

As at 31 December 2012, no guarantee was provided to the related parties.

31 December 2011

	Guaranteed amount	Commencement date of guarantee	Expiry date of Guarantee	Guarantee fully fulfilled
Wuhu Sterling Steering System Co., Ltd.	10,000,000	19 Jan. 2011	18 Jan. 2012	No

As at 31 December 2011, the Company provided the maximum guarantee in terms of bank credit business to Wuhu Sterling (our related party), with a maximum principal balance of RMB10 million, of which RMB5 million was already utilized by Wuhu Sterling. The guarantee contract was expired on 18 January 2012.

#### (d) Other related transactions

	2012	2011
Key managerial personnel remuneration	<u>2,509,950.50</u>	<u>2,394,592.14</u>

### (6) BALANCE OF RECEIVABLES/(PAYABLES) FROM/(TO) RELATED PARTIES

	31 December 2012	31 December 2011
Accounts receivable		
Wuhu Sterling Steering System Co., Ltd.	<u>26,566,905.16</u>	<u>25,391,425.25</u>

Amounts receivable from related parties are interest free, unsecured and have no fixed repayment term.

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## 9. LEASING ARRANGEMENT

As lessee

Significant operating leases: According to the lease contract signed with lessor, the group had the minimum lease payments under non-cancellable operating leases as follows:

	31 December 2012
Within 1 year (incl. the 1st year)	142,971.50
1-2 years (incl. the 2nd year)	-
2-3 years (incl. the 3rd year)	-
	<hr/>
	<u>142,971.50</u>

## 10. COMMITMENTS

	31 December 2012	31 December 2011
Capital commitment		
Contracted, but not provided for	<u>30,682,636.33</u>	<u>22,350,312.62</u>

## 11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings as well as monetary funds. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and notes receivables, other receivables, accounts and bills payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. Management reviews and agrees policies for managing each of these risks and they are summarized below.

### CREDIT RISK

Credit risk is the risk of financial losses arising from default of the counterparty.

Credit risk of the Group is mainly related to receivables. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, accounts receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is not significant.



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## 11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### CREDIT RISK (continued)

The credit risk of the Group's other financial assets, which comprise monetary funds, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As at 31 December 2012, the Group had specific concentration of credit risk as 52.86% (31 December 2011: 63.59%) of the Group's accounts receivable were due from the five largest customers. The Group does not hold any collateral or other credit enhancements over the balance of receivables.

The amounts of financial assets that are not past due or impaired, and the ageing analysis of the financial assets that are past due but are not impaired are as follows:

#### 31 December 2012

	Total	Neither past due nor impaired	Past due but not impaired		
			Within 1 year	1-2 years	Over 2 years
Cash on hand and at bank	78,543,676.91	78,543,676.91	-	-	-
Notes receivable	117,298,613.04	117,298,613.04	-	-	-
Accounts receivable	285,788,006.40	258,945,599.51	23,372,292.55	1,274,867.21	2,195,247.13
Other receivables	8,858,237.88	8,858,237.88	-	-	-
	<u>490,488,534.23</u>	<u>463,646,127.34</u>	<u>23,372,292.55</u>	<u>1,274,867.21</u>	<u>2,195,247.13</u>

#### 31 December 2011

	Total	Neither past due nor impaired	Past due but not impaired		
			Within 1 year	1-2 years	Over 2 years
Cash on hand and at bank	43,234,111.34	43,234,111.34	-	-	-
Notes receivable	137,538,266.04	137,538,266.04	-	-	-
Accounts receivable	203,618,895.42	154,292,963.05	41,843,270.26	6,502,327.53	980,334.58
Other receivables	9,216,366.98	9,216,366.98	-	-	-
	<u>393,607,639.78</u>	<u>344,281,707.41</u>	<u>41,843,270.26</u>	<u>6,502,327.53</u>	<u>980,334.58</u>

# NOTES TO THE FINANCIAL STATEMENTS

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## 11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk may arise when an entity is not able to sell financial assets at fair value in a timely manner; or the counterparties encounter difficulty in repaying contractual liabilities; or the entity could be required to pay its liabilities earlier than expected; or the entity could not obtain sufficient cash flow as expected.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of several financing methods such as notes settlement and bank borrowings, as well as optimizing financing structure through the combination of long and short-term financing. The Group has obtained banking facilities from several commercial banks to fund the working capital requirements and capital expenditure.

Management of the Group monitors the liquidity position of the Group on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fall due and to make the most efficient use of the Group's financial resources.

The table below summarizes the maturity profile of the financial assets based on the remaining maturity:

31 December 2012	Carrying value	Contractual Undiscounted amount	Within 1 year
Cash on hand and at bank	78,543,676.91	78,543,676.91	78,543,676.91
Notes receivable	117,298,613.04	117,298,613.04	117,298,613.04
Accounts receivable	285,788,006.40	285,788,006.40	285,788,006.40
Other receivables	8,858,237.88	8,858,237.88	8,858,237.88
	<u>490,488,534.23</u>	<u>490,488,534.23</u>	<u>490,488,534.23</u>

31 December 2011	Carrying value	Contractual Undiscounted amount	Within 1 year
Cash on hand and at bank	43,234,111.34	43,234,111.34	43,234,111.34
Notes receivable	137,538,266.04	137,538,266.04	137,538,266.04
Accounts receivable	203,618,895.42	203,618,895.42	203,618,895.42
Other receivables	9,216,366.98	9,216,366.98	9,216,366.98
	<u>393,607,639.78</u>	<u>393,607,639.78</u>	<u>393,607,639.78</u>

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## 11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### LIQUIDITY RISK (continued)

The table below summarizes the maturity profile of the financial liabilities based on the remaining maturity:

31 December 2012	Carrying value	Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank borrowings	220,920,400.00	232,041,712.08	214,437,595.42	13,995,866.66	3,608,250.00
Notes payable	19,849,353.45	19,849,353.45	19,849,353.45	-	-
Accounts payable	163,609,486.56	163,609,486.56	163,609,486.56	-	-
Employee benefits payable	4,214,108.09	4,214,108.09	4,214,108.09	-	-
Interest payable	1,497,183.50	1,497,183.50	1,497,183.50	-	-
Other payables	831,632.70	831,632.70	831,632.70	-	-
	<u>410,922,164.30</u>	<u>422,043,476.38</u>	<u>404,439,359.72</u>	<u>13,995,866.66</u>	<u>3,608,250.00</u>

31 December 2011	Carrying value	Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank borrowings	157,100,232.00	167,128,086.68	133,941,173.35	27,978,473.33	5,208,440.00
Notes payable	14,771,590.00	14,771,590.00	14,771,590.00	-	-
Accounts payable	165,119,836.40	165,119,836.40	165,119,836.40	-	-
Employee benefits payable	3,524,754.51	3,524,754.51	3,524,754.51	-	-
Interest payable	1,366,471.76	1,366,471.76	1,366,471.76	-	-
Other payables	951,788.17	951,788.17	951,788.17	-	-
	<u>342,834,672.84</u>	<u>352,862,527.52</u>	<u>319,675,614.19</u>	<u>27,978,473.33</u>	<u>5,208,440.00</u>

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## 11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### MARKET RISK

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk mainly includes interest rate risk and foreign exchange risk.

#### 1. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk for changes in interest rates relates primarily to the long-term interest-bearing borrowings with floating interest rates.

As at 31 December 2011, the bank borrowings of the Company with floating interest rates were RMB141,500,000.00 (31 December 2011: RMB140,000,000.00), and a reasonable and possible 50% base point change in interest rates, with all other variables held constant, will not have any significant impact on total profit and shareholders' equity of the Company.

#### 2. Foreign exchange risk

The Group operates in Mainland China, and transactions of its main operation are presented in RMB. Therefore, the Group's exposure to foreign exchange risk is not significant.

#### 3. Fair values

The fair values of the Group's financial assets and financial liabilities are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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## 12. OTHER IMPORTANT MATTERS

### (1) OTHER FINANCIAL INFORMATION

	2012		2011	
	The Group	The Company	The Group	The Company
Net current assets	236,381,060.33	248,828,993.74	192,811,168.15	185,380,086.36
Total assets less current liabilities	<u>778,946,236.84</u>	<u>405,120,081.24</u>	<u>719,905,845.49</u>	<u>337,384,063.14</u>

#### RETIREMENT BENEFITS

According to the "Labour Law of the People's Republic of China" and the relevant laws and regulations, the Company and its subsidiaries should participate in the basic pension insurance. Annual pension of all employees is equal to a fixed proportion of the average basic salary of the last employment areas. In the areas where employees are hired by the Company and its subsidiaries, the Company and its subsidiaries contribute to the local social security departments based on 25–30% of the average basic salary. The Company and its subsidiaries have no obligation to pay to the local social security departments other than the annual contributions described above.

### (2) DIRECTOR AND CEO'S REMUNERATION

Directors and chief executive's remuneration for the year is disclosed as follows:

	Group	
	2012	2011
Fees	<u>210,000.00</u>	<u>195,833.00</u>
Other emoluments:		
Wage, allowance and non-cash benefit amount	1,854,620.28	1,826,660.00
Pension scheme contributions	<u>60,530.22</u>	<u>35,370.54</u>
	<u>2,125,150.50</u>	<u>2,057,863.54</u>

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## 12. OTHER IMPORTANT MATTERS (continued)

### (2) DIRECTOR AND CEO'S REMUNERATION (continued)

#### (1) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2012	2011
Chau Kam Wing, Donald	120,000.00	120,000.00
Zhao Chun Zhi	30,000.00	30,000.00
Chen Guo Feng	3,333.33	30,000.00
Zhang Hong Zhi	30,000.00	15,833.00
Li Zi Biao	26,666.67	-
	<u>210,000.00</u>	<u>195,833.00</u>

#### (2) Executive directors, non-executive directors and chief executive

	Wage, allowance and non-cash benefit	Pension scheme contributions	Total remuneration
<b>2012</b>			
Executive directors			
Zhang Shi Quan	400,000.00	-	400,000.00
Tang Hao Han	300,000.00	13,200.00	313,200.00
Zhang Bao Yi	300,000.00	10,785.60	310,785.60
Zhu Jie Rong	240,000.00	-	240,000.00
Zhang Lan Jun	222,000.00	15,007.02	237,007.02
	<u>1,462,000.00</u>	<u>38,992.62</u>	<u>1,500,992.62</u>
Non-executive directors			
Zhang Shi Zhong	80,000.00	10,785.60	90,785.60
Lou Run Zheng	30,000.00	-	30,000.00
	<u>110,000.00</u>	<u>10,785.60</u>	<u>120,785.60</u>
	<u>1,572,000.00</u>	<u>49,778.22</u>	<u>1,621,778.22</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

RMB Yuan

(English Translation for Reference Only)

## 12. OTHER IMPORTANT MATTERS (continued)

### (2) DIRECTOR AND CEO'S REMUNERATION (continued)

#### (2) Executive directors, non-executive directors and chief executive (continued)

	Wage, allowance and non-cash benefit	Pension scheme contributions	Total remuneration
2011			
Executive directors			
Zhang Shi Quan	400,000.00	–	400,000.00
Tang Hao Han	300,000.00	7,680.00	307,680.00
Zhang Bao Yi	300,000.00	7,276.58	307,276.58
Zhu Jie Rong	240,000.00	–	240,000.00
Zhang Lan Jun	222,000.00	5,031.30	227,031.30
	<u>1,462,000.00</u>	<u>19,987.88</u>	<u>1,481,987.88</u>
Non-executive directors			
Zhang Shi Zhong	80,000.00	7,276.58	87,276.58
Zhang Mei Jun	40,000.00	3,840.00	43,840.00
Lou Run Zheng	30,000.00	–	30,000.00
	<u>150,000.00</u>	<u>11,116.58</u>	<u>161,116.58</u>
	<u><u>1,612,000.00</u></u>	<u><u>31,104.46</u></u>	<u><u>1,643,104.46</u></u>

No agreement of waive or agree to waive any emoluments of director and chief executive in 2012 (2011: Nil).

In 2012 and 2011, Mr. Zhang Shi Quan has been the executive director and chief executive of the Company during the year under review.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

RMB Yuan

(English Translation for Reference Only)

## 12. OTHER IMPORTANT MATTERS (continued)

### (2) DIRECTOR AND CEO'S REMUNERATION (continued)

#### (3) Supervisors

	Wage, allowance and non-cash benefit	Pension scheme contributions	Total remuneration
2012			
Wu Lang Ping	98,586.28	10,752.00	109,338.28
Du Min	108,000.00	–	108,000.00
Shen Song Sheng	28,034.00	–	28,034.00
Yang Di Shan	24,000.00	–	24,000.00
Wang Kui Quan	24,000.00	–	24,000.00
	<u>282,620.28</u>	<u>10,752.00</u>	<u>293,372.28</u>
2011			
Wu Lang Ping	93,120.00	4,266.08	97,386.08
Du Min	48,000.00	–	48,000.00
Shen Song Sheng	25,540.00	–	25,540.00
Yang Di Shan	24,000.00	–	24,000.00
Wang Kui Quan	24,000.00	–	24,000.00
	<u>214,660.00</u>	<u>4,266.08</u>	<u>218,926.08</u>



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

RMB Yuan

(English Translation for Reference Only)

## 12. OTHER IMPORTANT MATTERS (continued)

### (3) FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2011: four) directors, details of whose remuneration are set out in Note 12. (2) (2) above. Details of the remuneration of the remaining one (2011: one) non-director highest paid employee for the year are as follows:

	Group	
	2012	2011
Wage, allowance and non-cash benefit amount	528,085.80	517,228.22
Pension scheme contributions	—	—
	<u>528,085.80</u>	<u>517,228.22</u>

The remuneration of the non-director employee fell within the range of nil to RMB1,000,000.

## 13. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 22 March 2013.

## SUPPLEMENTAL INFORMATION

(English Translation for Reference Only)

### I. NON-RECURRING GAIN AND LOSS

According to Declaration of the China Securities Regulatory Commission [2008] No. 43 "Declaration on Explanation of Information Disclosure of companies issuing Securities Publicly No. 1 – non-recurring gain and loss" (《公開發行證券的公司信息披露解釋性公告第1號—非經常性損益》), the Group recognized non-recurring gain and loss.

	2012	2011
Net profit attributable to shareholders of ordinary shares of the Group	72,127,189.72	112,872,143.11
Less: Non-recurring gain and loss item		
Gain or loss on disposal of non-current assets	9,070,606.95	(312,885.34)
Government grants recognized in gain or loss during the period	9,950,660.37	5,195,677.72
Reversal of impairment provision on receivables tested for impairment on an individual basis	1,413,112.92	195,109.90
Income tax exemption for the previous year recognized in the current period (note)	–	8,963,243.85
Other net non-operating income and expenses other than aforesaid items	<u>(262,760.70)</u>	<u>(225,170.78)</u>
Total non-recurring gain or loss	20,171,619.54	13,815,975.35
Less: Income tax effect on non-recurring gain or loss	3,650,188.42	1,160,474.33
Less: Effect on non-recurring gain or loss attributable to minority shareholders	<u>65,727.34</u>	<u>130,358.84</u>
Effect on non-recurring gain or loss attributable to shareholders of ordinary shares of the Company, net of tax	<u>16,455,703.78</u>	<u>12,525,142.18</u>
Net profit attributable to shareholders of ordinary shares of the Company, net of non-recurring gain or loss	<u><u>55,671,485.94</u></u>	<u><u>100,347,000.93</u></u>

## SUPPLEMENTAL INFORMATION

(English Translation for Reference Only)

### I. NON-RECURRING GAIN AND LOSS *(continued)*

*Note:* Siping Steering met "Implementation Provisions Regarding Separation between Main Business and Auxiliary Business of Large and Medium-sized State-owned Enterprises, Reform of the System of Auxiliary Business and Arrangement for Redundant Workers" (《關於國有大中型企業主輔分離輔業改制分流安置富餘人員的實施辦法》)(Guo Jing Mao Qi Gai [2002] No.859) from 1 January 2003 to 30 June 2004, and it was entitled to income tax exemption. However, as it did not get the approval reply from the tax authority during the year, Siping Steering fully provided for the corporate income tax for the relevant period. In November 2011, Siping Steering got the approval reply from the State Administration of Taxation in the Siping Economic Development Zone, which agreed to implement the provisions of "Implementation Provisions Regarding Separation between Main Business and Auxiliary Business of Large and Medium-sized State-owned Enterprises, Reform of the System of Auxiliary Business and Arrangement for Redundant Workers" (《關於國有大中型企業主輔分離輔業改制分流安置富餘人員的實施辦法》)(Guo Jing Mao Qi Gai [2002] No.859) from 1 January 2003 to 30 June 2004 to exempt Siping Steering from corporate income tax, and therefore Siping Steering offset the provision for corporate income tax of RMB8,963,243.85 for the relevant period.

### II. DIFFERENCES IN PREPARATION OF FINANCIAL STATEMENTS BETWEEN DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

The financial statements of the Company were prepared in accordance with Accounting Standards of Business Enterprises. In 2011, according to "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" issued by the Hong Kong Stock Exchange in December 2010, the Company decided to prepare the financial statements in accordance with Accounting Standards of Business Enterprises for information disclosure on the Hong Kong Stock Exchange.

## SUPPLEMENTAL INFORMATION

(English Translation for Reference Only)

### III. RETURN ON NET ASSETS AND EARNINGS PER SHARE 2012

	Weighted average return on net assets ratio (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to shareholders of ordinary shares of the Company	10.81	0.27	0.27
Net profit, after deduction of non-recurring gain and loss, attributable to shareholders of ordinary shares of the Company	8.35	0.21	0.21

2011

	Weighted average return on net assets ratio (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to shareholders of ordinary shares of the Company	18.98	0.43	0.43
Net profit, after deduction of non-recurring gain and loss, attributable to shareholders of ordinary shares of the Company	16.87	0.38	0.38

### IV. DESCRIPTION ON IRREGULAR MOVEMENTS IN MAJOR ITEMS OF THE FINANCIAL STATEMENTS AND THE REASON

The statement items which data change 30% or more for both periods, or account for 5% of total assets as at the balance sheet date or more than 10% of total profit for the reporting period are analyzed as follows:

## SUPPLEMENTAL INFORMATION

(English Translation for Reference Only)

### IV. DESCRIPTION ON IRREGULAR MOVEMENTS IN MAJOR ITEMS OF THE FINANCIAL STATEMENTS AND THE REASON

1. Items of the consolidated balance sheet as at 31 December 2012 with relatively material changes as compared with those as at 31 December 2011 are set forth below:

		Unit: RMB		
		31 December 2012	31 December 2011	Change(%)
Cash on hand and at bank	1	78,543,676.91	43,234,111.34	81.67%
Notes receivable	2	117,298,613.04	137,538,266.04	-14.72%
Accounts receivable	3	285,788,006.40	203,618,895.42	40.35%
Inventories	4	136,467,615.08	122,418,117.92	11.48%
Available-for-sale financial assets	5	4,000,000.00	-	-
Other current assets	6	1,224,181.63	1,876,410.23	-34.76%
Fixed assets	7	352,252,860.50	290,304,220.05	21.34%
Construction in progress	8	92,861,833.52	140,976,414.81	-34.13%
Intangible assets	9	70,278,922.57	74,352,887.70	-5.48%
Deferred tax assets	10	3,540,202.68	1,525,065.14	132.13%
Other non-current assets	11	14,255,150.05	8,239,189.54	73.02%
Short-term loans	12	191,500,000.00	114,079,832.00	67.86%
Notes payable	13	19,849,353.45	14,771,590.00	34.38%
Accounts payable	14	163,609,486.56	165,119,836.40	-0.91%
Taxes payable	15	(2,571,272.18)	5,743,037.16	-144.77%
Long-term borrowings	16	15,630,000.00	30,020,400.00	-47.94%
Share capital	17	277,657,855.00	262,657,855.00	5.71%
Capital reserve	18	42,299,204.72	27,587,397.23	53.33%

# SUPPLEMENTAL INFORMATION

(English Translation for Reference Only)

## IV. DESCRIPTION ON IRREGULAR MOVEMENTS IN MAJOR ITEMS OF THE FINANCIAL STATEMENTS AND THE REASON *(continued)*

1. Items of the consolidated balance sheet as at 31 December 2012 with relatively material changes as compared with those as at 31 December 2011 are set forth below: *(continued)*

- (1) The increase in cash was mainly due to cash inflow arising from the proceeds of A Share Issue;
- (2) The decrease in notes receivable was mainly due to most of the notes receivable promised to be paid as at the year end were not matured but had been endorsed to other parties;
- (3) The increase in accounts receivable was mainly due to longer turnover days during this year by the customers;
- (4) The increase in inventories was mainly due to the increase in output and sales by Hangzhou New Shibao and Jilin Shibao during this year;
- (5) The increase in available for sale financial assets was mainly due to the financial products newly acquired during this year;
- (6) The decrease in other current assets was due to the decrease in moulds amortized within one year purchased by the Group;
- (7) The increase in fixed assets was mainly due to the transfer from construction in progress to fixed assets became ready for use;
- (8) The decrease in construction in progress was mainly due to the equipment or projects became ready for use and transferred to fixed assets;
- (9) The decrease in intangible assets was mainly due to usual amortization during the year;
- (10) The increase in deferred tax assets was mainly due to the provision of deferred tax assets against deductible losses in Jilin Shibao;
- (11) The increase in other non-current assets was mainly due to the performance bond paid during this year upon the projects commenced construction;
- (12) The increase in short-term loans was mainly due to the increase of bank borrowings to meet the requirements of operation;
- (13) The increase in notes payable was mainly due to optimized application of funds with more amounts settled in terms of notes during this year;
- (14) The decrease in accounts payable was mainly due to the decrease of purchase during the year;
- (15) The decrease taxes payable was mainly due to the decrease in profit before tax of the Group, which resulted in a decrease of income tax payable and an increase in purchase of raw materials upon expansion of production by Hangzhou New Shibao, which resulted in value-added tax payable greater than sales tax;
- (16) The decrease in long-term borrowings was mainly due to repayment during this year;
- (17) The increase in share capital was due to the issue of A shares by the Company;
- (18) The increase in capital reserve was due to the share premium arising from the issue of A shares by the Company.

## SUPPLEMENTAL INFORMATION

(English Translation for Reference Only)

### IV. DESCRIPTION ON IRREGULAR MOVEMENTS IN MAJOR ITEMS OF THE FINANCIAL STATEMENTS AND THE REASON (continued)

2. Items of the consolidated income statement for 2012 with relatively material changes as compared with those for 2011 are set forth below:

		Unit: RMB		
		31 December 2012	31 December 2011	Change(%)
Revenue	1	548,384,676.25	625,917,119.21	-12.39%
Cost of sales	2	379,802,713.65	403,887,118.40	-5.96%
Sales taxes and surcharges	3	3,427,055.31	5,156,884.62	-33.54%
Selling expenses	4	33,163,289.07	35,881,539.03	-7.58%
General and administrative expenses	5	61,988,355.05	54,553,179.60	13.63%
Financial expenses	6	8,569,382.77	5,694,893.68	50.47%
Asset impairment losses	7	(1,981,818.96)	(1,014,037.17)	95.44%
Investment losses	8	(2,320,296.63)	(127,683.62)	1717.22%
Non-operating income	9	20,899,618.87	5,406,050.02	286.60%
Non-operating expenses	10	2,498,499.60	1,141,411.63	118.90%
Income tax expenses	11	10,601,542.25	15,246,498.53	-30.47%
Minority interests gains/losses	12	(3,232,209.97)	(2,224,145.83)	45.32%

- (1) The decrease in revenue was mainly due to fall in sales of steering knuckles by the Group, which resulted in a substantial decrease in the revenue from steering knuckles;
- (2) The decrease in cost of sales was mainly due to the decrease in sales and the change in product mix;
- (3) The decrease in sales taxes and surcharges was mainly due to the decrease in sales and increase in purchases during this year;
- (4) The decrease in selling expenses was mainly due to a decrease in sales, which resulted in the decrease of staff bonuses, transportation costs and warranty expenses;
- (5) The increase in general and administrative expenses was mainly due to expansion of Hangzhou New Shibao and Jilin Shibao, subsidiaries of the Group, which resulted in increase of staff costs;
- (6) The increase in financial expenses was mainly due to the substantial increase in bank loans during this year, which were used by the Group to expand the scale of production;
- (7) The decrease in provision for assets impairment was mainly due to the write-back of provision for bad debts and provision for diminution in the value of inventories for the current year to the previous year;
- (8) The increase in investment loss was mainly due to the decrease in the sales of Wuhu Sterling, an associate invested by the Group, which increased loss and resulted in more loss attributable to the Group during this year;
- (9) The increase in non-operating income was due to gain on the disposal of non-current assets during this year and increase of government grants;
- (10) The increase in non-operation expenses was due to the increase of assets becoming obsolete;
- (11) The decrease in income tax expenses was due to the decrease in profit for the year;
- (12) The decrease in minority interests gains/losses was mainly due to the loss incurred by Hangzhou New Shibao, a subsidiary, during this year.

## GLOSSARY

"A Share(s)"	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued in China and listed on Shenzhen Stock Exchange, and are subscribed for and traded in RMB
"Anhui Changshan"	Anhui Changshan Auto Parts Manufacturing Co., Ltd., a subsidiary controlled by Zhejiang Shibao Holding
"Articles of Association"	Articles of association of the Company
"Audit Committee"	Audit committee of the Company
"Beijing Autonics"	Beijing Autonics Technology Co., Ltd., a subsidiary controlled by the Company
"Board"	Board of Directors of the Company
"Changchun Shili"	Changchun Shili Automotive Brake Parts Co., Ltd., a subsidiary controlled by Zhejiang Shibao Holding
"Chery Auto"	Chery Automobile Co., Ltd.
"Code on Corporate Governance Practices"	Code on Corporate Governance Practices, Appendix 14 to the Listing Rules of Hong Kong Stock Exchange
"Company"	Zhejiang Shibao Company Limited
"Corporate Governance Code or CG Code"	Corporate Governance Code, the new edition of Code on Corporate Governance Practices
"CSRC"	China Securities Regulatory Committee
"Dongfeng Group"	Dongfeng Motor Group Co. Ltd.
"Director(s)"	Director(s) of the Company
"FAW Car"	FAW Car Co., Ltd.
"FAW Group"	FAW Group Corporation
"Final Dividend"	Final dividend for the year ended 31 December 2012
"Group"	The Company and its subsidiaries



## GLOSSARY

“H Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued overseas and listed on Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars
“Hangzhou New Shibao”	Hangzhou New Shibao Electric Power Steering Co., Ltd., a subsidiary controlled by the Company
“Hangzhou Shibao”	Hangzhou Shibao Auto Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“JAC”	Anhui Jianghuai Automobile Group Co., Ltd.
“Jilin Shibao”	Jilin Shibao Machinery Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company
“Listing Rules”	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules of Hong Kong Stock Exchange
“Mr. Zhang”	Mr. Zhang Shi Quan
“Nomination Committee”	Nomination committee of the Company
“PRC or China or Mainland China”	People’s Republic of China
“Remuneration Committee”	Remuneration committee of the Company
“RMB”	Renminbi
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Siping Steering”	Siping Steering Gear Co., Ltd., a subsidiary controlled by the Company
“Supervisor(s)”	Supervisor(s) of the Company
“Supervisory Committee”	Supervisory committee of the Company
“Wuhu Sterling”	Wuhu Sterling Steering System Co., Ltd., an associate of the Company
“Zhejiang Shibao Holding or Ultimate Holding Company”	Zhejiang Shibao Holding Group Co., Ltd.