



SHIBAO
STEERING
THE FUTURE
2013
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	Executive Directors 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) 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)
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)
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)
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 & 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)

* For identification only

CORPORATE INFORMATION

Compliance Officer	Mr. Zhu Jie Rong (朱頡榕)
Secretary of 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
Auditors	Pan-China Certified Public Accountants LLP 4th-10th Floor Xinhu Commercial Tower No. 128 Xixi Road Hangzhou, China

CORPORATE INFORMATION

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

Building 2, Singapore Hangzhou Technology Zone

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

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 Technological 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 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

Hong Kong H Share Registrar and Transfer Office

Contact Information

Bank of Communications of China, Wuhu Branch
Economic and Technology Development Zone Sub-branch
No. 33, Yin Hu Road North
Wuhu Economic and Technology Development Zone
Wuhu, China

Erdos Rural Commercial Bank
Dong Huan Road Branch
Ground floor, Complex building of Inter-city Bus Station
Dong Huan Road, Dong Sheng District
Erdos, China

Industrial and Commercial Bank of China (Asia) Limited
Hong Kong Headquarters
33rd Floor ICBC Tower
3 Garden Road
Central
Hong Kong

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Corporate communication/Investor relations

Ms. Liu Xiao Ping (劉曉平) Secretary of the Board
No.6, 17th Avenue
Hangzhou Economic and Technology Development Zone
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China (Post code: 310018)
Tel.: +86 571 2802 5692
Fax: +86 571 2802 5691
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CORPORATE INFORMATION

Company secretary services

Ms. Huen Lai Chun (禰麗珍) Company Secretary

Room 1204

C C Wu Building

302-308 Hennessy Road

Wanchai

Hong Kong

Tel.: +852 31048118

Fax: +852 31048119

Email: ir@zjshibao.com

Place of Listing

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

Website

www.zjshibao.com

CORPORATE PROFILE

The Company is a joint stock limited company registered in the People's Republic of China on 12 July 2004 under the Company Law of the PRC. Its Ultimate Holding Company is 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 develop, design, manufacture and sales of automotive steering gears and other key components and parts of steering system, and accumulating 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 of the Group and Chairman and General Manager, 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, Xiamen King Long Motor Group 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 on 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 auto-makers 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

A summary of the published results, assets and liabilities of the Group for the past five years ended 31 December 2013 are set out below. The relevant information were prepared on a consolidated basis and based on China Accounting Standards for Business Enterprises for 2012, 2011 and 2010, and International Accounting Standards for 2009.

RESULTS

	For the year ended 31 December				
	2013 RMB0,000	2012 RMB0,000	2011 RMB0,000	2010 RMB0,000 (Restated)	2009 RMB0,000
Revenue	67,460	54,838	62,592	54,594	36,352
Total profit	5,076	7,950	12,589	11,866	7,664
Net profit	4,553	6,889	11,065	10,434	6,716
Minority interests	(329)	(323)	(222)	94	80
Net profits attributable to equity holders of the Parent	4,882	7,213	11,287	10,340	6,635
Basic earnings per share (RMB)	0.18	0.27	0.43	0.39	0.2526

ASSETS AND LIABILITIES

	As at 31 December				
	2013 RMB0,000	2012 RMB0,000	2011 RMB0,000	2010 RMB0,000 (Restated)	2009 RMB0,000
Non-current assets	62,945	54,257	52,709	40,778	30,842
Current assets	68,471	63,967	52,426	40,324	29,178
Current liabilities	50,070	40,329	33,145	20,751	12,430
Net current assets	18,401	23,638	19,281	19,573	16,748
Equity attributable to equity holders of the Parent	74,355	71,694	64,137	55,205	46,641
Total liabilities and shareholders' equity	131,416	118,224	105,135	81,102	47,050

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 2013.

The Group has committed itself to the research and development of automotive steering technologies and products and mainly engaged in the develop, 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.

During the reporting period, the Company's revenue increased due to the stable macro economic performance and the healthy growth of the automobile industry in the PRC, as well as the acquisition of equity interests of and increase registered capital to an associate by the Company resulted in the inclusion of such company's accounts to the Company's consolidated accounts. During the reporting period, the Company recorded a revenue of RMB674,596,299.70, representing an increase of 23.02% as compared with 2012, among which 99.36% of the revenue were generated from the Company's main business.

During the reporting period, the gross profit margin of the Company's main business was 26.10% (2012: 30.39%). The decrease in the gross profit margin was mainly due to price cuts of the Company's products.

For the year ended 31 December 2013, net profit of the Company was RMB45,529,097.19 (2012: RMB68,894,979.75), representing a decrease of 33.92% as compared with 2012. Net profit attributable to equity holders of the Parent was RMB48,823,967.72 (2012: RMB72,127,189.72), representing a decrease of 32.31% as compared with 2012 which was mainly due to price cuts of the Company's products giving rise to a reduction of gross profit, as well as an increase of the Company's expenses (including financial expenses etc.) as a result of expansion of the Company's production and operation scale and construction of the Company's A Shares IPO projects.

During the year under review, revenue from top five customers of the Group accounted for 60.25% of the total revenue.

On 2 November 2012, the Company's A Shares of 15,000,000 shares were listed on the Shenzhen Stock Exchange by way of initial public offering.

CHAIRMAN'S STATEMENT

OUTLOOK

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 scale China automotive companies are growing up. As the "global sourcing" and "localization" strategies are 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.

Company strategy and business plan

The Company will further invest on the research and development of high performance, intelligent, light-weight and energy-saving technologies for automotive steerings, therefore to expand business to the middle to high end market and to gain global sourcing business. The Company will also make the mass production of the electronic power steering system (EPS) products.

In 2014, the Company plans to make investment to increase production capacity. Also, the Company plans to further penetrate to the China brand OEM market. However, the Company understands that the important of the diversity of customers and markets, therefore the Company will actively develop the JV OEM customers and global sourcing business with large multinational automakers.

Zhang Shi Quan

Chairman

Hangzhou, Zhejiang, the PRC
21 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF CHINA AUTOMOBILE INDUSTRY

In 2013, production and sales volume of China automobile industry were 22,116,800 units and 21,984,100 units respectively, representing an increase of 14.80% and 13.90% as compared with 2012. Among these, production and sales of passenger cars were 18,085,200 units and 17,928,900 units respectively, representing an increase of 16.50% and 15.70% as compared with 2012; production and sales of commercial vehicles were 4,031,600 units and 4,055,200 units respectively, representing an increase of 7.60% and 6.40% as compared with 2012. In 2013, sales of China-brand passenger cars was 7,222,000 units, representing an increase of 11.4%, which accounted for 40.30% of total sales of passenger cars, representing a decrease of approximately 1.60%. Among commercial vehicles, production and sales volume of buses were 563,100 units and 558,900 units respectively, representing an increase of 11.20% and 10.20% as compared with 2012; production and sales volume of trucks were 3,468,500 units and 3,496,300 units respectively, representing an increase of 7.00% and 5.80% as compared with 2012. In 2013, top ten automaker groups in China produced 19,430,600 units of automobiles, which accounted for 88.40% of the total automobile production, representing an increase of 1.40% as compared to last year and an increase in industry concentration.

COMPETITIVE STRENGTHS

Through our long-term focus on the self-research and development of technologies and products in relation to automotive steering system, we, the core supplier of FAW Car, have accumulated over 20 years of OEM experiences in automobile industry, established a wide range of customer base and excellent reputations, and received the awards of “Supplier of the Year” from various large-scale domestic automakers. Our core competitive strengths are realized in the following four aspects:

- 1) We are the owner of the self-developed core technologies for hydraulic power steering system and electric power steering (EPS) system and the holder of 59 technology patents, of which 6 are invention patents, and 3 software copyrights associated with EPS electronic control units.
- 2) With advanced craftsmanship, processing technologies, and examination and testing equipment, we are committed to implementing lean production model and ISO:TS16949 quality certification system with an aim to provide high-tech and high quality steering products to our clients with the most competitive price.
- 3) We are the first enterprise that has established precision casting and processing capability in the steering industry of China. This enables us to enhance the quality assurance of our products and helps us better satisfy the clients' demand for development of new products.
- 4) We have established a flexible staff recruitment and incentive scheme to attract industry experts at home and abroad while placing more focus on nurturing young minds to maintain a pool of talents for the Company's future development.

OPERATING RESULTS AND FINANCIAL REVIEW

During the reporting period, the Company's revenue increased due to the stable macro economic performance and the healthy growth of the automobile industry in the PRC, as well as the acquisition of equity interests of and increase registered capital to an associate by the Company resulted in the inclusion of such company's accounts to the Company's consolidated accounts. During the reporting period, the Company recorded a revenue of RMB674,596,299.70, representing an increase of 23.02% as compared with 2012, among which 99.36% of the revenue were generated from the Company's main business.

During the reporting period, the gross profit of Company's main business decreased by RMB9,338,745.46 as compared with 2012. The gross profit margin of the Company's main business was 26.10% (2012: 30.39%). The decrease in the gross profit margin was mainly due to price cuts of the Company's products.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Company's selling expenses was RMB50,068,677.27, increased by RMB16,905,388.20 as compared with 2012. The ratio of selling expenses to revenue also increased as compared with 2012. Increase in selling expenses was mainly due to an increase in transportation and warehouse expenses and the provision of warranty expenses. During the reporting period, the Company's general and administrative expenses was RMB78,930,895.74, increased by RMB16,942,540.69 as compared with 2012. The ratio of general and administrative expenses to revenue also increased as compared with 2012. Increase in general and administrative expenses was mainly due to an increase in the research and development expenses and staff costs. During the reporting period, the Company's financial expenses was RMB11,464,634.83, increased by RMB2,895,252.26 as compared with 2012. 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.

During the reporting period, the Company's research and development expenses was RMB25,503,480.73. The ratio of research and development expenses to the Company's audited net assets and revenue for the year 2013 was 3.29% and 3.78% respectively. The Company'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 Company, and helps the Company to acquire new businesses and positions the Company to a leading edge of the industry.

During the reporting period, the Company's non-operating income was RMB8,212,352.15, decreased by RMB12,687,266.72 as compared with 2012. The Company's non-operating income was mainly related to receipt of government grants of RMB7,730,737.71.

During the reporting period, the Company acquired Wuhu Sterling through business combination not involving entities under common control. For the previously held interest in Wuhu Sterling before the acquisition date, the interest was remeasured at fair value on the acquisition date and an investment income of RMB11,078,565.05 was recognized.

In view of the above, the Company recorded a net profit attributable to equity holders of the Parent of RMB48,823,967.72, representing a decrease of 32.31% as compared with 2012. The decrease in the profit of the Company as compared with last year was mainly due to price cuts of the Company's products giving rise to a reduction of gross profit, as well as an increase of the Company's expenses (including financial expenses etc.) as a result of expansion of the Company's production and operation scale and construction of the Company's A Shares IPO projects.

As at the end of the reporting period, the Company's gearing ratio was 40.99%, representing an increase as compared with 2012. 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 the end of the reporting period, the Company's total assets was RMB1,314,155,640.47, equity attributable to equity holders of the Parent was RMB743,553,105.84.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2013, the amount of total loans and borrowings was RMB250,630,400.00 (2012: RMB220,920,400.00). Total loans and borrowings increased by RMB29,710,000.00 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 RMB247,800,400.00 (2012: RMB205,290,400.00), representing a share of 98.87% (2012: 92.93%) in total loans and borrowings. Loans and borrowings at fixed interest rates amounted to RMB177,830,400.00.

At the Board meeting held on 27 January 2014, the Board resolved that the Company intends to issue not more than 38,200,000 new A Shares, representing approximately 20.01% of the A Shares and approximately 13.76% of the total shares of the Company currently in issue respectively. The issue price of the new A Shares will be not less than RMB18.54 per A Share, being not less than 90% of the average trading price per A Share as quoted on the Shenzhen Stock Exchange for the price determination period (which is calculated by dividing the total turnover of the A Shares during the price determination period by the total trading volume of the A Shares during the same period). The amount of gross proceeds from the additional A Shares issue is expected to be not more than RMB708,000,000. The Company intends to use such proceeds for the projects. Resolutions for the additional A Shares issue were passed at the extraordinary general meeting, the A Shares Class Meeting and the H Shares Class Meeting held on 20 March 2014. As at the date of the annual report, the Company has not submitted the related applications to the CSRC. Details of the additional A Shares issue are set out in the Company's announcement dated 27 January 2014, the Company's overseas regulatory announcements dated 28 January 2014 and the Company's circular dated 4 March 2014.

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

PLEDGE OF ASSETS

As at 31 December 2013, the restricted cash on hand and at bank of the Group was RMB8,340,703.35 (2012: RMB1,770,509.77) which refers to the deposits for issuance of bank acceptances.

As at 31 December 2013, buildings and constructions with a carrying value of RMB5,899,575.10 as included in fixed assets and land use rights with a carrying value of RMB7,114,530.58 as included in intangible assets, have been pledged as security for loans granted to subsidiaries.

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

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS

WUHU STERLING

On 30 January 2013, the Company entered into an 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 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 (“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. 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, the 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 relevant applicable percentage ratios are more than 5% but less than 25%, the Transactions is constituted a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules of Hong Kong Stock Exchange and is only subject to the reporting and announcement requirements under the Listing Rules of Hong Kong Stock Exchange. On 22 April 2013, the relevant industrial and commercial registration procedures have been completed regarding the Transactions and equity interests held by the Company in Wuhu Sterling was increased from 46% to 57.89%. Wuhu Sterling was included in the consolidated accounts of the Company since May 2013.

CHANGCHUN SHILI

On 17 May 2012, the Company and Shibao Holding entered into the Acquisition Agreement, pursuant to which the Company acquired 90% equity interest in Changchun Shili for a total consideration of RMB10,467,600. Shibao Holding is a controlling shareholder of the Company. Hence, Shibao Holding is a connected person of the Company pursuant to Chapter 14A of the Listing Rules of Hong Kong Stock Exchange, and the transaction contemplated under the Acquisition Agreement constitutes a connected transaction of the Company. As the relevant applicable percentage ratios are more than 0.1% but lower than 5%, the transaction contemplated under the Acquisition Agreement is exempt from the independent shareholders’ approval requirement under Rule 14A.32 of the Listing Rules of Hong Kong Stock Exchange but is only subject to the reporting and announcement requirements under the Listing Rules of Hong Kong Stock Exchange. On 10 July 2013, Changchun Shili has completed the relevant industrial and commercial registration procedures and the Company became the shareholder of Changchun Shili and held 90% of its equity interests. Changchun Shili became a directly held non-wholly owned subsidiary of the Company. On the extraordinary meeting of the Board convened on 9 October 2013, the Board resolved to dispose 90% of equity interests in Changchun Shili to independent third parties at a price not lower than the consideration paid by the Company in the acquisition of Changchun Shili, i.e. not lower than RMB10,467,600. On 23 December 2013, the Company entered into the Equity Transfer Agreement with Changchun Mengjia Automotive Parts Company Ltd. (“Mengjia Automotive”) to transfer 90% of equity interests held by the Company in Changchun Shili at a consideration of RMB10,467,600. The purchaser, Mengjia Automotive, hold 10% equity interests in Changchun Shili and thus a substantial shareholder of Changchun Shili. Hence, the purchaser, Mengjia Automotive, is a connected person of the Company pursuant to Chapter 14A of the Listing Rules of Hong Kong Stock Exchange, and the transaction contemplated under the Equity Transfer Agreement constitutes a connected transaction of the Company. As the relevant applicable percentage ratios (including the consideration ratio) are more than 0.1% but lower than 5%, the transaction contemplated under the Equity Transfer Agreement is exempt from the reporting, announcement and independent shareholders’ approval requirements under Rule 14A.31(9) of the Listing Rules of Hong Kong Stock Exchange. On 14 February 2014, Changchun Shili has completed the relevant industrial and commercial registration procedures and the Company is no longer holding any equity interests in Changchun Shili. Since the main purpose of acquiring the equity interests in Changchun Shili by the Company was to perform the commitment to regulators, i.e. to complete the transfer of the 90% equity interests held by Shibao Holding to the Company within six months after the IPO of the Company’s A Shares, rather than to take control of Changchun Shili. Furthermore, the Company has completed the disposal of the equity interests in Changchun Shili. Therefore, the related long-term equity investment was calculated at cost method, and was not included in the scope of the consolidated accounts of the Company.

Save as disclosed above, the Company did not have any other material acquisition and disposal concerning subsidiaries and associates in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN CURRENCY EXPOSURE

For the year ended 31 December 2013, 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 commitments set out in page 107 in the annual report, the Group has no other material capital commitments as at 31 December 2013.

CONTINGENT LIABILITIES

The Group has no material contingent liabilities as at 31 December 2013.

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 1,650 employees as at 31 December 2013 (2012: 1,511). For the year ended 31 December 2013, total staff salaries and welfares costs amounted to RMB91,277,307.09 (2012: 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 64, is the Chairman and General Manager of the Company. He is a Chinese national with no permanent residence abroad. He is a senior economist. Since 12 June 2004, he has been appointed as the Chairman and General Manager of the Company. 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’s current term was effective from 25 May 2012 and is valid till 24 May 2015. Mr. Zhang is also a director of Shibao Holding; an executive director of Hangzhou Shibao; the chairman of Siping Steering and Wuhu Sterling; and a director of Jilin Shibao, Hangzhou New Shibao, Beijing Autonics and Anhui Changshan.

Mr. Zhang Bao Yi (張寶義), aged 41, is a vice Chairman and deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor’s degree. Since 12 June 2004, he has been appointed as vice Chairman and deputy general manager of the Company. Mr. Zhang was granted the title of “Labour Model of Yiwu City” (義烏市勞動模範) in 2004. Mr. Zhang’s current term was effective from 25 May 2012 and is valid till 24 May 2015. Mr. Zhang is also the chairman of Hangzhou New Shibao and Beijing Autonics; a director of Wuhu Sterling and Anhui Changshan; and the general manager of Hangzhou Shibao.

Mr. Tang Hao Han (湯浩瀚), aged 46, is a vice Chairman and deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a doctor’s degree. Since 12 June 2004, he has been appointed as vice Chairman and deputy general manager of the Company. Mr. Tang was awarded the “Outstanding Entrepreneur of Jilin Province” (吉林省優秀企業家), “Labour Model of Jilin Province” (吉林省勞動模範), “National Outstanding Youth Entrepreneur Leader” (全國青年興業領頭人), “Outstanding Entrepreneur of National Privately-Owned Technological Enterprises” (全國優秀民營科技企業家) and “National Labour Day Medal” (國家「五一」勞動獎章). Mr. Tang’s 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; and a director of Anhui Changshan.

Ms. Zhang Lan Jun (張蘭君), aged 39, is the finance Director of the Company. She is a Chinese national with no permanent residence abroad. She has a master’s degree. Since 12 June 2004, she has been appointed as the finance Director of the Company. Ms. Zhang has over 10 years of experience in finance and accounting. Ms. Zhang’s current term was effective from 25 May 2012 and is valid till 24 May 2015. Ms. Zhang is also a finance manager of Hangzhou Shibao and a director of Anhui Changshan.

Mr. Zhu Jie Rong (朱頡榕), aged 66, is a Director of the Company. He is a Chinese national with no permanent residence abroad. He has a college’s degree and is an engineer. From 12 June 2004 to 31 December 2012, he was a deputy general manager of the Company. Since 12 June 2004, he has been appointed as a Director of the Company. Mr. Zhu’s current term was effective from 25 May 2012 and is valid till 24 May 2015. Mr. Zhu is also a supervisor of Shibao Holding.

NON-EXECUTIVE DIRECTORS

Mr. Zhang Shi Zhong (張世忠), aged 53, is a Director of the Company. He is a Chinese national with no permanent residence abroad. Since 12 June 2004, he has been appointed as a Director of the Company. Mr. Zhang’s current term was effective from 25 May 2012 and is valid till 24 May 2015. Mr. Zhang is also the chairman of Shibao Holding and Anhui Changshan.

Mr. Lou Run Zheng (樓潤正), aged 50, is a Director of the Company. He is a Chinese national with no permanent residence abroad. He has a master’s degree. He has been appointed as the general manager of Zhejiang Yuan Zheng Hotel Management Co. Ltd. (浙江圓正賓館管理有限公司) since 2009. Since 4 November 2009, Mr. Lou 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Kam Wing, Donald (周錦榮), aged 51, is an independent Director of the Company. He is a Chinese national and permanent resident of Hong Kong Special Administrative Region of the People's Republic of China. He has a master's degree. Mr. Chau has over 20 years' 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); 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). Since 4 November 2009, Mr. Chau 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 Chun Zhi (趙春智), aged 68, is an independent Director of the Company. He is a Chinese national with no permanent residence abroad. He is a senior economist. Mr. Zhao retired from FAW Group in 2006. Since 5 June 2009, he has been appointed as an independent Director of the Company. Mr. Zhao's current term was effective from 25 May 2012 and is valid till 24 May 2015.

Mr. Zhang Hong Zhi (張洪智), aged 48, is an independent Director of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is an economist. Mr. Zhang has over 20 years of experience in areas of banking, securities and investment. From April 2007 to December 2009, Mr. Zhang was the chief representative of Beijing Office of Henan Hui Cheng Investment Co., Ltd. (河南滙誠投資有限公司). 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). Since September 2008, he has been a supervisor of Henan Honghui Technology Co., Ltd. (湖南鴻輝科技有限公司). Since September 2012, he has been a vice president of First Capital Fund Management Co., Ltd. (首控基金管理有限公司). Since 20 June 2011, Mr. Zhang 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. Li Zi Biao (李自標), aged 68, is an independent Director of the Company. He is a Chinese national with no permanent residence abroad. He is a professor grade senior engineer. Mr. Li is 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), the 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), the Secretary-General of steering-net under CAIN (全國汽車經濟技術信息網轉向專業網秘書長) and the 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). Since 10 February 2012, Mr. Li 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Du Min (杜敏), aged 59, is the chairman of the Supervisory Committee of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree. Since 2002, he was appointed as an assistant to general manager of Siping Steering. Since 1 June 2007, Mr. Du has been appointed as the chairman of the Supervisory Committee of the Company. His current term was effective from 25 May 2012 and is valid till 24 May 2015.

Mr. Yang Di Shan (楊迪山), aged 76, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is a senior engineer. Mr. Yang retired from FAW Group in 1998. From 2006 to 2011, he was a deputy general manager of Beijing Keguan Vehicle Hi-tech Development Co., Ltd. (北京科冠車輛新技術開發有限公司). Since 5 June 2009, Mr. Yang 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 Shibao Holding.

Mr. Wu Lang Ping (吳琅平), aged 51, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a college's degree. Since 1993, he has been appointed as a manager of technical and process department of Hangzhou Shibao. 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. Shen Song Sheng (沈松生), aged 77, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He retired from the Company in 2009. Since 12 June 2004, Mr. Shen 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. Wang Kui Quan (王奎泉), aged 50, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a master's degree. Since September 2000, Mr. Wang is a professor of Zhejiang University of Finance & Economics (浙江財經學院). Since 12 June 2004, Mr. Wang 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.

SENIOR MANAGEMENT

Mr. Yu Zhong Chao (虞忠潮), aged 49, is a deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is an engineer. Since 11 August 2006, he was appointed as a deputy general manager of the Company.

Ms. Liu Xiao Ping (劉曉平), aged 43, is a deputy general manager and the Board secretary of the Company. She is a Chinese national with no permanent residence abroad. She has a master's degree. Since 2006, she was appointed as a director of securities and investment department of the Company. Since 13 May 2011, she was appointed as the Board secretary of the Company. Since 27 December 2013, she was appointed as a deputy general manager and the Board secretary of the Company.

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

Ms. Huen Lai Chun (禰麗珍), aged 48, is the company secretary of the Company. Since May 2009, she has been appointed as the company secretary and authorised representative of the Company under the Listing Rules of Hong Kong Stock Exchange. Ms. Huen 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 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 2013.

PRINCIPAL ACTIVITIES

The Group has committed itself to the research and development of automotive steering gear products and mainly engaged in the develop, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The activities of its subsidiaries are set out in page 62 to page 64 in the annual report.

Segmental analysis is set out in the notes 5.(2)1 to the consolidated financial statements and page 114 in the annual report.

RESULTS

Results of the Group for the year ended 31 December 2013 are set out in page 40 in the annual report.

FINANCIAL SUMMARY

Summary of the Group's results, assets and liabilities for the past five financial years are set out in page 8 in 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 2013, 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 2013 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.

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).

REPORT OF THE DIRECTORS

FINAL DIVIDENDS *(continued)*

Withholding and payment of income tax on Final Dividend *(continued)*

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)) ("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
- 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 5.(1)29 to the consolidated financial statements in the annual report.

CONVERTIBLE DEBENTURES

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

REPORT OF THE DIRECTORS

RESERVES

Reserves of the Group and its changes during the year prepared in accordance with China 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 5.(1)30, 31 and 32 to the consolidated financial statements in the annual report.

DISTRIBUTABLE RESERVE

As at 31 December 2013, the Company's distributable reserve is RMB309,696,780.40 (2012: RMB289,773,896.98), and the relevant details are set out in note 5.(1)32 to the consolidated financial statements in the annual report.

PROPERTIES, PLANT AND EQUIPMENT

Details of changes of the Group's properties, plant and equipment during the year are set out in note 5.(1)10 to the consolidated financial statements in the annual report.

BORROWINGS AND OTHERS

Details of the Group's bank and other borrowings as at 31 December 2013 are set out in notes 5.(1)17, 25 and 27 to the consolidated financial statements in the annual report.

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)

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)

REPORT OF THE DIRECTORS

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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 of the directors 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).

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.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the remuneration of Directors, Supervisors and the five highest paid employees are set out in page 106 to page 107 in the annual report.

During the year, the five highest paid employees include 4 Directors, the remuneration of the remaining one disclosed by band is as follows: -

Remuneration by band	Number of person
RMB500,000 – RMB1,000,000	1

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 Shibao Holding entered into the Acquisition Agreement, pursuant to which the Company acquired 90% equity interest in Changchun Shili for a total consideration of RMB10,467,600. Shibao Holding is a controlling shareholder of the Company. Hence, Shibao Holding is a connected person of the Company pursuant to Chapter 14A of the Listing Rules of Hong Kong Stock Exchange, and the transaction contemplated under the Acquisition Agreement constitutes a connected transaction of the Company. As the relevant applicable percentage ratios are more than 0.1% but lower than 5%, the transaction contemplated under the Acquisition Agreement is exempt from the independent shareholders' approval requirement under Rule 14A.32 of the Listing Rules of Hong Kong Stock Exchange but is only subject to the reporting and announcement requirements under the Listing Rules of Hong Kong Stock Exchange. On 10 July 2013, Changchun Shili has completed the relevant industrial and commercial registration procedures and the Company became the shareholder of Changchun Shili and held 90% of its equity interests. Changchun Shili became a directly held non-wholly owned subsidiary of the Company. On the extraordinary meeting of the Board convened on 9 October 2013, the Board resolved to dispose 90% of equity interests in Changchun Shili to independent third parties at a price not lower than the consideration paid by the Company in the acquisition of Changchun Shili, i.e. not lower than RMB10,467,600. On 23 December 2013, the Company entered into the Equity Transfer Agreement with Mengjia Automotive to transfer 90% of equity interests held by the Company in Changchun Shili at a consideration of RMB10,467,600. The purchaser, Mengjia Automotive, hold 10% equity interests in Changchun Shili and thus a substantial shareholder of Changchun Shili. Hence, the purchaser, Mengjia Automotive, is a connected person of the Company pursuant to Chapter 14A of the Listing Rules of Hong Kong Stock Exchange, and the transaction contemplated under the Equity Transfer Agreement constitutes a connected transaction of the Company. As the relevant applicable percentage ratios (including the consideration ratio) are more than 0.1% but lower than 5%, the transaction contemplated under the Equity Transfer Agreement is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.31(9) of the Listing Rules of Hong Kong Stock Exchange. On 14 February 2014, Changchun Shili has completed the relevant industrial and commercial registration procedures and the Company is no longer holding any equity interests in Changchun Shili. Since the main purpose of acquiring the equity interests in Changchun Shili by the Company was to perform the commitment to regulators, i.e. to complete the transfer of the 90% equity interests held by Shibao Holding to the Company within six months after the IPO of the Company's A Shares, rather than to take control of Changchun Shili. Furthermore, the Company has completed the disposal of the equity interests in Changchun Shili. Therefore, the related long-term equity investment was calculated at cost method, and was not included in the scope of the consolidated accounts of the Company.

In relation to the major transaction made between the Group and the related parties as set out in note 6.(2) to the financial statements, during the year under review, the purchase of goods from Wuhu Sterling, an associate of the Company, and the sale of finished goods to it between January and April 2013 constitute connected transactions under Chapter 14A of the Listing Rules of Hong Kong Stock Exchange. However, such transactions are intragroup 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. After the acquisition of equity interests and increase in registered capital of Wuhu Sterling, on 22 April 2013, equity interests held by the Company in Wuhu Sterling was increased from 46% to 57.89%. Wuhu Sterling was included in the consolidated accounts of the Company since May 2013. Details are set out in page 14 in the annual report.

Save as disclosed above, for the year ended 31 December 2013, the Company has no transaction which required to be made connected transaction disclosures under the Listing Rules of Hong Kong Stock Exchange. The Company has been in compliance with the disclosures requirement 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 2013, 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 (<i>Note 1</i>)	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 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 Shibao Holding, Mr. Zhang is taken or deemed to be interested in all of the 165,387,223 A Shares held by Shibao Holding.

(2) Long positions in the registered capital of the Ultimate Holding Company, Shibao Holding, an associated corporation of the Company:

Name of Director	Capacity	Contribution in the registered capital	Approximate percentage in the registered capital of 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: 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, 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 Shibao Holding, the Ultimate Holding Company of the Company, is owned as to 100% by Shibao Holding. As Mr. Zhang holds 40% interest in the registered capital of 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 Shibao Holding, Mr. Zhang is taken or deemed to be interested in the 100% interest directly held by Shibao Holding in Anhui Changshan.

Save as disclosed above, as at 31 December 2013, 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 of 31 December 2013, 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
Shibao Holding	Beneficial owner (Note 1&2)	165,387,223 A Shares	86.62%	59.57%
Mr. Zhang	Interest in controlled corporation (Note 1&2)	165,387,223 A Shares	86.62%	59.57%
	Beneficial owner (Note 2)	10,556,632 A Shares	5.53%	3.80%

Note:

- (1) As at 31 December 2013, Shibao Holding owned 165,387,223 A Shares of the Company. As Mr. Zhang holds 40% interest in the registered capital of Shibao Holding, Mr. Zhang is deemed to be interested in all of the 165,387,223 A Shares of the Company held by Shibao Holding.
- (2) Mr. Zhang's interest in these 175,943,855 A Shares of the Company, including 165,387,223 A Shares owned by Shibao Holding and 10,556,632 A Share 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 owned by Shibao Holding represent the same interest and therefore duplicate amongst Shibao Holding and Mr. Zhang.

Save as disclosed above, as at 31 December 2013, 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 register to be kept under Section 336 of the SFO.

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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

For the year ended 31 December 2013, the Company has not implemented any share option scheme.

DIRECTORS' 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 2013, the Group had a total of 1,650 employees, total staff salaries and welfares costs amounted to RMB91,277,307.09. 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 2013.

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

During the year under review, 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.

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 2013, purchases attributable to the Group's five largest suppliers and revenue attributable to the five largest customers represented 21.45% and 60.25% of the Group's total purchases and total revenue respectively. In addition, the largest supplier and the largest customer represented 6.97% and 22.35% 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.

REPORT OF THE DIRECTORS

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.

POST BALANCE SHEET EVENTS

Details of post balance sheet events are set out in page 108 in the annual report.

CORPORATE GOVERNANCE

The Corporate Governance Report adopted by the Company is set out in page 30 to page 35 in the annual report.

AUDITORS

As disclosed in the Company's announcement dated 12 August 2011, in order to improve efficiency and reduce cost of disclosure, the Board decided to prepare only one set of financial statements for the Company for any financial period commencing on or after 1 January 2011 under China Accounting Standards for Business Enterprises in light of the acceptance by the Hong Kong Stock Exchange of matters in relation to the adoption of Mainland accounting and auditing standards and the appointment of Mainland audit firms. On 12 August 2011, Ernst & Young, as the International auditor, tendered its resignation letter to resign as international auditor of the Company; Ernst & Young Hua Ming undertook all such activities as required to be performed by international auditor under the Listing Rules of Hong Kong Stock Exchange (including but not limited to the preliminary announcement on annual results and annual review of continuing connected transactions).

As disclosed in the Company's announcement dated 22 April 2013, in order to control costs, the Board decided not to re-appoint Ernst & Young Hua Ming as the auditor of the Company. The appointment for Ernst & Young Hua Ming ended at the conclusion of the 2012 annual general meeting. The Board further decided to propose the appointment of Pan-China Certified Public Accountants LLP as the auditor of the Company in the 2012 annual general meeting of the Company. Pan-China shall hold office from the conclusion of 2012 annual general meeting to the conclusion of the next annual general meeting. On the annual general meeting held on 14 June 2013, resolution of not to re-appoint Ernst & Young Hua Ming and to appoint Pan-China as the Company's auditor has been passed.

The financial statements for the year ended 31 December 2013 have been audited by Pan-China Certified Public Accountants LLP.

By order of the Board

Zhang Shi Quan

Chairman and General Manager

Hangzhou, Zhejiang, the PRC

21 March 2014

REPORT OF THE SUPERVISORY COMMITTEE

To all shareholders:

For the year 2013, 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 four meetings, attended Board meetings and shareholders' meeting, and heard reports regarding the finance and profit distribution, connected transactions, operating results and the 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 to the operating results of the Company in 2013. No violation of laws and regulations of the PRC or the place of listing and the Articles of Association of the Company have been discovered during the discharge of their duties. The Supervisory Committee is optimistic about the prospect of the Company.

Having reviewed the financial statements for the year ended 31 December 2013 prepared by Pan-China Certified Public Accountants LLP based on China 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 Company.

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 maintain the interests of the Company and shareholders as its own duty, and to supervise the Company to realize its commitments to the shareholders for the best of performance.

By order of the Supervisory Committee

Du Min

Convenor of the Supervisory Committee

Hangzhou, Zhejiang, the PRC

21 March 2014

CORPORATE GOVERNANCE REPORT

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interest 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 applied during the year ended 31 December 2013 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 CG Code with the exception of code provision A.2.1, code provision A.1.8 and code provision 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 Company'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 independent non-executive Directors and other non-executive Directors were unable to attend the Company's annual general meeting held on 14 June 2013 due to their other business engagements.

MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in the 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 nine meetings in total.

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	AGM 2012
Number of meetings	9	5	1	2	1	1
Executive Directors						
Zhang Shi Quan (<i>Chairman and General Manager</i>)	9/9				1/1	1/1
Zhang Bao Yi	9/9				1/1	1/1
Tang Hao Han	9/9				1/1	1/1
Zhu Jie Rong	9/9					1/1
Zhang Lan Jun	8/9			2/2		0/1
Non-executive Directors						
Zhang Shi Zhong	9/9	5/5	1/1			1/1
Lou Run Zheng	9/9					0/1
Independent non-executive Directors						
Zhao Chun Zhi	9/9			2/2		1/1
Chau Kam Wing, Donald	9/9	5/5	1/1	2/2		1/1
Zhang Hong Zhi	9/9	5/5	1/1			1/1
Li Zi Biao	8/9					0/1

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 of the Directors 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 Rule 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.

CORPORATE GOVERNANCE REPORT

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 (Chairman of the Company). 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 the 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 be handled by the executive Directors and senior management. 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 profit 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.

The Board is responsible for the overall governance of the Company. During the year under review, the Board amended the terms of reference of the Nomination Committee according to the regulations of new code of board diversity.

INDUCTION AND DEVELOPMENT

All new Directors receive a personalized induction programme, tailed 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 one training for the Directors, relating to purchase and sale of listed securities of the Company, insider dealings and disclosure of information. All Directors shall provide their training record to the Company once 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 of Hong Kong Stock Exchange. 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.

Our internal audit department reviews the internal control of the Group from time to time, which covers all the material aspects of monitoring, including financial control, operation control, compliance control and risk management functions, and the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. Our internal audit department has submitted the internal audit report in relation to the review of internal control for the year 2013.

In addition, the Company engaged Pan-China Certified Public Accountants LLP to be our internal control auditor during the reporting period. Pan-China Certified Public Accountants LLP is of the view that the Company has maintained effective internal control of financial report in all material aspects as of 31 December 2013 in accordance with the Basic Standard for Corporate Internal Control and relevant regulations.

CORPORATE GOVERNANCE REPORT

The Board considers that the existing internal control system of the Company is adequate and effective with reference to the review of the Audit Committee on the internal audit report prepared by the internal audit department and the internal control review report prepared by Pan-China Certified Public Accountants.

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 managements. Records of attendance of each member of the committee are set out in page 31 under "Board of Directors" section of this annual 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 criteria and processes for 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) review 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 of 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 two meetings to resolve the adoption of "Board Diversity Policy" and the corresponding amendments to "Rules of Procedure of Nomination Committee", the confirmation of the structure, size and composition (including skill, knowledge and experience) of the Board in light of the Company's corporate strategy, and the nomination of Ms. Liu Xiao Ping as the Deputy General Manager of the Company and continuing to be the Board Secretary of the Company. Records of attendance of each member of the committee are set out in page 31 under "Board of Directors" section of this annual report.

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 five meetings to review the Company's auditor's report for 2012, internal control self-evaluation report for 2012, unaudited financial report for the first quarterly, interim and third quarterly of 2013, internal audit report and internal audit plan etc.. The Audit Committee also resolved and proposed to the Board not to re-appoint Ernst & Young Hua Ming and to appoint of Pan-China Certified Public Accountants LLP as the Company's auditor for 2013. Records of attendance of each member of the committee are set out in page 31 under "Board of Directors" section of this annual report.

The Company's audited financial report for the year ended 31 December 2013 has been reviewed by the Audit Committee.

CORPORATE GOVERNANCE REPORT

SUPERVISORY COMMITTEE

The Supervisory Committee is established in compliance with the Company Law of the PRC. The Supervisory Committee of the Company comprises five members, 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 2013, remuneration received by Pan-China Certified Public Accountants LLP, the auditors of the Company, in respect of their audit services and non-audit services are as follows:

	RMB
Statutory audit services	600,000
Non-statutory audit services – internal control	200,000
Total	<u>800,000</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 of this annual report. 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 in the Auditors’ Report in page 36 in the annual 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 shares 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 ensure 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. The contact details is set out in the “Corporate Profile” section of this annual report.

CORPORATE GOVERNANCE REPORT

Shareholders singly or jointly holding more than three per cent (3%) (inclusive) of the shares 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 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.

SIGNIFICANT CHANGES IN ARTICLES OF ASSOCIATION

During the year under review, there was no change in the Articles of Association.

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 relevant information to shareholders. The Company also maintains communications with shareholders through its annual reports and interim reports.

RELATIONSHIP WITH INVESTORS

The Company regularly met with analysts and attended various forums, so as to strengthen relationship with the investment sector.

AUDITORS' REPORT



Pan-China Audit (2014) No. 1118

TO THE SHAREHOLDERS OF ZHEJIANG SHIBAO COMPANY LIMITED

We have audited the accompanying financial statements of Zhejiang Shibao Company Limited (hereinafter "Zhejiang Shibao Company"), which comprise the consolidated and parent company balance sheet as at 31 December 2013, the consolidated and parent company income statements, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity for the year then ended, and the notes to the financial statements.

I. Management's Responsibility for the Financial Statements

Management of Zhejiang Shibao Company 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 Accountants' 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.

III. OPINION

In our opinion, the financial statements present fairly, in all material aspects, the consolidated and parent company's financial position of Zhejiang Shibao Company as at 31 December 2013 and the consolidated and parent company's financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Pan-China Certified Public Accountants LLP
Hangzhou, the PRC

Chinese Certified Public Accountant: Gu Chuan
Chinese Certified Public Accountant: Yu Jia Nan

21 March 2014

CONSOLIDATED BALANCE SHEET

31 December 2013 | (RMB Yuan) | (English translation for reference only)

Item	Balance at the end of the period	Balance at the beginning of the period
Current Assets:		
Cash on hand and at bank	66,950,127.71	78,543,676.91
Notes receivable	107,726,195.93	117,298,613.04
Accounts receivable	278,671,401.35	285,788,006.40
Prepayments	6,645,582.97	7,492,521.04
Other receivables	14,656,634.69	8,858,237.88
Inventories	180,906,462.73	136,467,615.08
Non-current assets classified as held for sale and assets of disposal groups classified as held for sale	10,467,600.00	–
Other current assets	18,682,541.03	5,224,181.63
Total current assets	<u>684,706,546.41</u>	<u>639,672,851.98</u>
Non-current Assets:		
Long-term equity investments	–	9,376,207.19
Fixed assets	436,022,601.37	352,252,860.50
Construction in progress	50,226,907.30	92,861,833.52
Intangible assets	111,106,921.94	70,278,922.57
Goodwill	4,694,482.34	–
Deferred income tax assets	4,655,061.06	3,540,202.68
Other non-current assets	22,743,120.05	14,255,150.05
Total non-current assets	<u>629,449,094.06</u>	<u>542,565,176.51</u>
Total Assets	<u><u>1,314,155,640.47</u></u>	<u><u>1,182,238,028.49</u></u>
Current Liabilities:		
Short-term loans	234,750,000.00	191,500,000.00
Notes payable	39,542,300.00	19,849,353.45
Accounts payable	182,042,731.52	163,609,486.56
Receipts in advance	4,591,550.94	2,280,342.43
Staff costs payable	6,935,081.29	4,214,108.09
Taxes payable	6,442,301.09	(2,571,272.18)
Interests payable	1,508,401.59	1,497,183.50
Other payables	1,898,639.32	831,632.70
Non-current liabilities due within one year	13,050,400.00	13,790,400.00
Other current Liabilities	9,934,306.59	8,290,557.10
Total current Liabilities	<u>500,695,712.34</u>	<u>403,291,791.65</u>

CONSOLIDATED BALANCE SHEET

31 December 2013 | (RMB Yuan) | (English translation for reference only)

Item	Balance at the end of the period	Balance at the beginning of the period
Non-current Liabilities:		
Long-term borrowings	2,830,000.00	15,630,000.00
Deferred income tax liabilities	9,104,181.29	1,505,958.33
Other non-current Liabilities	26,093,228.66	27,984,418.23
Total non-current Liabilities	38,027,409.95	45,120,376.56
Total Liabilities	538,723,122.29	448,412,168.21
Shareholders' Equity:		
Share capital	277,657,855.00	277,657,855.00
Capital reserve	42,299,204.72	42,299,204.72
Surplus reserve	113,899,265.72	107,210,809.82
Retained earnings	309,696,780.40	289,773,896.98
Equity attributable to equity holders of the Parent	743,553,105.84	716,941,766.52
Minority interests	31,879,412.34	16,884,093.76
Total Shareholders' Equity	775,432,518.18	733,825,860.28
Total Liabilities and Shareholders' Equity	1,314,155,640.47	1,182,238,028.49

The notes form an integral part of the financial statements.

The financial statements as set out from page 37 to page 45 have been signed by:

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

BALANCE SHEET OF THE PARENT COMPANY

31 December 2013 | (RMB Yuan) | (English translation for reference only)

Item	Balance at the end of the period	Balance at the beginning of the period
Current Assets:		
Cash on hand and at bank	10,360,957.46	31,336,987.85
Notes receivable	387,288.00	450,000.00
Accounts receivable	43,153,425.67	19,391,554.80
Prepayments	484,737.71	82,651.65
Dividends receivable	5,000,000.00	35,000,000.00
Other receivables	241,125,230.80	231,416,409.98
Inventories	7,056,514.69	5,104,897.35
Non-current assets classified as held for sale and assets of disposal groups classified as held for sale	10,467,600.00	–
Other current assets	4,487.16	31,357.50
Total current assets	318,040,241.49	322,813,859.13
Non-current Assets:		
Long-term equity investments	177,159,214.87	137,376,207.19
Fixed assets	8,354,001.06	7,776,892.79
Construction in progress	5,442,865.45	5,441,067.04
Deferred income tax assets	73,244.75	96,920.48
Other non-current assets	6,000,000.00	5,600,000.00
Total non-current assets	197,029,326.13	156,291,087.50
Total Assets	515,069,567.62	479,104,946.63
Current Liabilities:		
Short-term loans	99,000,000.00	65,000,000.00
Accounts payable	4,895,911.10	6,109,290.83
Receipts in advance	78,456.39	48,000.00
Staff costs payable	702,555.34	742,040.71
Taxes payable	540,210.21	836,516.28
Interests payable	204,081.42	127,840.49
Other payables	117,704.40	121,177.08
Other current Liabilities	800,000.00	1,000,000.00
Total current Liabilities	106,338,918.86	73,984,865.39
Non-current Liabilities:		
Total non-current Liabilities	–	–
Total Liabilities	106,338,918.86	73,984,865.39
Shareholders' Equity:		
Share capital	277,657,855.00	277,657,855.00
Capital reserve	41,590,963.68	41,590,963.68
Surplus reserve	58,379,450.06	55,797,130.47
Retained earnings	31,102,380.02	30,074,132.09
Total Shareholders' Equity	408,730,648.76	405,120,081.24
Total Liabilities and Shareholders' Equity	515,069,567.62	479,104,946.63

CONSOLIDATED INCOME STATEMENT

For the year 2013 | (RMB Yuan) | (English translation for reference only)

Item	Current year	Last year
1. Total revenue	674,596,299.70	548,384,676.25
Including: Revenue	674,596,299.70	548,384,676.25
2. Total operating costs	641,653,264.91	484,968,976.89
Including: Operating costs	496,308,510.32	379,802,713.65
Business taxes and surcharges	3,532,722.11	3,427,055.31
Selling expenses	50,068,677.27	33,163,289.07
General and administrative expenses	78,930,895.74	61,988,355.05
Financial expenses	11,464,634.83	8,569,382.77
Assets impairment losses	1,347,824.64	(1,981,818.96)
Add: Investment gains/(losses)	10,668,873.53	(2,320,296.63)
Including: Investment gains from associates and jointly controlled entities	(424,431.25)	(2,320,296.63)
3. Operating profit/(losses)	43,611,908.32	61,095,402.73
Add: Non-operating income	8,212,352.15	20,899,618.87
Including: Gain on disposal of non-current assets	159,924.09	9,233,699.03
Less: Non-operating expenses	1,068,073.47	2,498,499.60
Including: Loss on disposal of non-current assets	275,462.61	163,092.08
4. Total profit/(losses)	50,756,187.00	79,496,522.00
Less: Income tax expenses	5,227,089.81	10,601,542.25
5. Net profit/(losses)	45,529,097.19	68,894,979.75
Net profit attributable to equity holders of the Parent	48,823,967.72	72,127,189.72
Minority interests	(3,294,870.53)	(3,232,209.97)
6. Earnings per share:		
(1) Basic earnings per share	0.18	0.27
(2) Diluted earnings per share	0.18	0.27
7. Other comprehensive income	—	—
8. Total comprehensive income	45,529,097.19	68,894,979.75
Total comprehensive income attributable to equity holders of the Parent	48,823,967.72	72,127,189.72
Total comprehensive income attributable to minority shareholders	(3,294,870.53)	(3,232,209.97)

INCOME STATEMENT OF THE PARENT COMPANY

For the year 2013 | (RMB Yuan) | (English translation for reference only)

Item	Current year	Last year
1. Revenue	39,082,724.42	40,232,232.33
Less: Operating costs	27,582,129.86	28,768,542.26
Business taxes and surcharges	206,202.68	207,580.62
Selling expenses	355,898.78	583,405.42
General and administrative expenses	6,038,318.99	8,183,533.03
Financial expenses	4,062,877.87	3,396,629.60
Assets impairment losses	(94,702.91)	(112,299.84)
Add: Investment gains/(losses)	25,071,200.19	62,679,307.09
Including: Investment gains from associates and jointly controlled entities	71,200.19	(2,320,692.91)
2. Operating profit/(losses)	26,003,199.34	61,884,148.33
Add: Non-operating income	50,487.25	3,035,496.34
Including: Gain on disposal of non-current assets	41,929.35	25,496.34
Less: Non-operating expenses	126,466.00	40,590.49
Including: Loss on disposal of non-current assets	31,503.20	31,311.20
3. Total profit/(losses)	25,927,220.59	64,879,054.18
Less: Income tax expenses	104,024.67	589,058.07
4. Net profit/(losses)	25,823,195.92	64,289,996.11
5. Earnings per share:	-	-
6. Other comprehensive income	-	-
7. Total comprehensive income	25,823,195.92	64,289,996.11

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 2013 | (RMB Yuan) | (English translation for reference only)

Item	Current year	Last year
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	437,141,123.79	604,651,290.38
Return of taxes and levies	809,997.78	–
Cash received relating to other operating activities	11,331,799.54	6,621,355.29
Sub-total of cash inflow	449,282,921.11	611,272,645.67
Cash paid for goods and services	192,322,019.86	408,593,032.89
Cash paid to and on behalf of employees	88,566,092.72	71,103,978.80
Payment of taxes and levies	47,379,370.47	54,941,355.99
Cash paid relating to other operating activities	62,909,773.45	58,431,978.83
Sub-total of cash outflow	391,177,256.50	593,070,346.51
Net cash flow from operating activities	58,105,664.61	18,202,299.16
2. Cash flows from investing activities:		
Cash received from investment gains	14,739.73	–
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	2,089,660.22	11,603,815.86
Cash received relating to other investing activities	10,990,000.00	5,631,257.41
Sub-total of cash inflow	13,094,399.95	17,235,073.27
Cash paid to acquire fixed assets, intangible assets and other long-term assets	31,208,479.14	55,700,292.47
Cash paid for investments	10,467,600.00	–
Net cash paid to acquire subsidiaries and other business entities	2,655,381.55	–
Cash paid relating to other investing activities	14,869,000.00	4,000,000.00
Sub-total of cash outflow	59,200,460.69	59,700,292.47
Net cash flow from investing activities	(46,106,060.74)	(42,465,219.20)
3. Cash flows from financing activities:		
Cash received from investments	–	38,700,000.00
Cash received from borrowings	326,500,000.00	205,950,000.00
Cash received relating to other financing activities	69,200,000.00	3,000,000.00
Sub-total of cash inflow	395,700,000.00	247,650,000.00
Cash paid for debt repayments	319,790,000.00	142,129,832.00
Cash paid for distribution of dividends, profit or interest expenses <i>Including: dividends and profit to minority interests by subsidiaries</i>	37,120,496.91	38,542,125.80
Cash paid relating to other financing activities	69,200,000.00	6,653,935.75
Sub-total of cash outflow	426,110,496.91	187,325,893.55
Net cash flow from financing activities	(30,410,496.91)	60,324,106.45
4. Effect of changes in foreign exchange rate on cash and cash equivalents	247,150.26	–
5. Net increase in cash and cash equivalents	(18,163,742.78)	36,061,186.41
Add: opening balance of cash and cash equivalents	76,773,167.14	40,711,980.73
6. Closing balance of cash and cash equivalents	58,609,424.36	76,773,167.14

STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

For the year 2013 | (RMB Yuan) | (English translation for reference only)

Item	Current year	Last year
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	13,898,732.46	45,779,285.94
Cash received relating to other operating activities	20,008,063.80	51,161,193.05
Sub-total of cash inflow	33,906,796.26	96,940,478.99
Cash paid for goods and services	20,534,841.25	30,701,330.58
Cash paid to and on behalf of employees	4,710,735.30	4,164,087.56
Payment of taxes and levies	2,440,667.62	1,905,094.72
Cash paid relating to other operating activities	28,110,473.59	67,662,914.98
Sub-total of cash outflow	55,796,717.76	104,433,427.84
Net cash flow from operating activities	(21,889,921.50)	(7,492,948.85)
2. Cash flows from investing activities:		
Cash received from investment gains	55,000,000.00	30,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	83,240.00	100,000.00
Cash received relating to other investing activities	5,600,000.00	264,287.76
Sub-total of cash inflow	60,683,240.00	30,364,287.76
Cash paid to acquire fixed assets, intangible assets and other long-term assets	2,171,193.46	7,628,043.94
Cash paid for investments	47,179,407.49	–
Net cash paid to acquire subsidiaries and other business entities	3,000,000.00	–
Cash paid relating to other investing activities	14,869,000.00	–
Sub-total of cash outflow	67,219,600.95	7,628,043.94
Net cash flow from investing activities	(6,536,360.95)	22,736,243.82
3. Cash flows from financing activities:		
Cash received from investments	–	38,700,000.00
Cash received from borrowings	139,000,000.00	65,000,000.00
Cash received relating to other financing activities	49,700,000.00	3,000,000.00
Sub-total of cash inflow	188,700,000.00	106,700,000.00
Cash paid for debt repayments	105,000,000.00	55,000,000.00
Cash paid for distribution of dividends, profit or interest expenses	26,565,511.78	29,950,133.82
Cash paid relating to other financing activities	49,700,000.00	6,653,935.75
Sub-total of cash outflow	181,265,511.78	91,604,069.57
Net cash flow from financing activities	7,434,488.22	15,095,930.43
4. Effect of changes in foreign exchange rate on cash and cash equivalents	15,763.84	–
5. Net increase in cash and cash equivalents	(20,976,030.39)	30,339,225.40
Add: opening balance of cash and cash equivalents	31,336,987.85	997,762.45
6. Closing balance of cash and cash equivalents	10,360,957.46	31,336,987.85

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2013 | (RMB Yuan) | (English translation for reference only)

Current year

Item	Current year					Total shareholders' equity
	Share capital	Attributable to equity holders of the Parent Capital reserve	Surplus reserve	Retained earnings	Minority interests	
1. Balance at the end of last year	277,657,855.00	42,299,204.72	107,210,809.82	289,773,896.98	16,884,093.76	733,825,860.28
2. Balance at the beginning of year	277,657,855.00	42,299,204.72	107,210,809.82	289,773,896.98	16,884,093.76	733,825,860.28
3. Increase/(decrease) during the period	-	-	6,688,455.90	19,922,883.42	14,995,318.58	41,606,657.90
(1) Net profit	-	-	-	48,823,967.72	(3,294,870.53)	45,529,097.19
(2) Other comprehensive income	-	-	-	-	-	-
Sub-total of (1) & (2)	-	-	-	48,823,967.72	(3,294,870.53)	45,529,097.19
(3) Contribution by shareholders and decrease in capital	-	-	-	-	18,790,189.11	18,790,189.11
1. Contribution by shareholders in capital	-	-	-	-	-	-
2. Share-based payment credited to owners' equity	-	-	-	-	-	-
3. Other	-	-	-	-	18,790,189.11	18,790,189.11
(4) Appropriation of profits	-	-	6,688,455.90	(28,901,084.30)	(500,000.00)	(22,712,628.40)
1. Transfer to surplus reserve	-	-	6,688,455.90	(6,688,455.90)	-	-
2. Appropriation to general risk provision	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	(22,212,628.40)	(500,000.00)	(22,712,628.40)
(5) Internal carry-forward of owners' equity	-	-	-	-	-	-
(6) Special reserve	-	-	-	-	-	-
4. Balance at the end of year	<u>277,657,855.00</u>	<u>42,299,204.72</u>	<u>113,899,265.72</u>	<u>309,696,780.40</u>	<u>31,879,412.34</u>	<u>775,432,518.18</u>

Last year

Item	Last year					Total shareholders' equity
	Share capital	Attributable to equity holders of the Parent Capital reserve	Surplus reserve	Retained earnings	Minority interests	
1. Balance at the end of last year	262,657,855.00	27,587,397.23	95,087,541.52	256,035,761.06	20,616,303.73	661,984,858.54
2. Balance at the beginning of year	262,657,855.00	27,587,397.23	95,087,541.52	256,035,761.06	20,616,303.73	661,984,858.54
3. Increase/(decrease) during the period	15,000,000.00	14,711,807.49	12,123,268.30	33,738,135.92	(3,732,209.97)	71,841,001.74
(1) Net profit	-	-	-	72,127,189.72	(3,232,209.97)	68,894,979.75
(2) Other comprehensive income	-	-	-	-	-	-
Sub-total of (1) & (2)	-	-	-	72,127,189.72	(3,232,209.97)	68,894,979.75
(3) Contribution by shareholders and decrease in capital	15,000,000.00	14,711,807.49	-	-	-	29,711,807.49
1. Contribution by shareholders in capital	15,000,000.00	14,711,807.49	-	-	-	29,711,807.49
2. Share-based payment credited to owners' equity	-	-	-	-	-	-
(4) Appropriation of profits	-	-	12,123,268.30	(38,389,053.80)	(500,000.00)	(26,765,785.50)
1. Transfer to surplus reserve	-	-	12,123,268.30	(12,123,268.30)	-	-
2. Appropriation to general risk provision	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	(26,265,785.50)	(500,000.00)	(26,765,785.50)
(5) Carry-forward of owners' equity	-	-	-	-	-	-
(6) Special reserve	-	-	-	-	-	-
4. 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>16,884,093.76</u>	<u>733,825,860.28</u>

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the year 2013 | (RMB Yuan) | (English translation for reference only)

Current year

Item	Current year				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	277,657,855.00	41,590,963.68	55,797,130.47	30,074,132.09	405,120,081.24
2. Balance at the beginning of year	277,657,855.00	41,590,963.68	55,797,130.47	30,074,132.09	405,120,081.24
3. Increase/(decrease) during the period	-	-	2,582,319.59	1,028,247.93	3,610,567.52
(1) Net profit	-	-	-	25,823,195.92	25,823,195.92
(2) Other comprehensive income	-	-	-	-	-
Sub-total of (1) & (2)	-	-	-	25,823,195.92	25,823,195.92
(3) Contribution by shareholders and decrease in capital	-	-	-	-	-
(4) Appropriation of profits	-	-	2,582,319.59	(24,794,947.99)	(22,212,628.40)
1. Transfer to surplus reserve	-	-	2,582,319.59	(2,582,319.59)	-
2. Appropriation to general risk provision	-	-	-	-	-
3. Distribution to shareholders	-	-	-	(22,212,628.40)	(22,212,628.40)
(5) Carry-forward of owners' equity	-	-	-	-	-
(6) Special reserve	-	-	-	-	-
4. Balance at the end of year	<u>277,657,855.00</u>	<u>41,590,963.68</u>	<u>58,379,450.06</u>	<u>31,102,380.02</u>	<u>408,730,648.76</u>

Last year

Item	Last year				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	262,657,855.00	26,879,156.19	49,368,130.86	(1,521,078.91)	337,384,063.14
2. 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
3. Increase/(decrease) during the period	15,000,000.00	14,711,807.49	6,428,999.61	31,595,211.00	67,736,018.10
(1) Net profit	-	-	-	64,289,996.11	64,289,996.11
(2) Other comprehensive income	-	-	-	-	-
Sub-total of (1)&(2)	-	-	-	64,289,996.11	64,289,996.11
(3) Contribution by shareholders and decrease in capital	15,000,000.00	14,711,807.49	-	-	29,711,807.49
1. Contribution by shareholders in capital	15,000,000.00	14,711,807.49	-	-	29,711,807.49
2. Share-based payment credited to owners' equity	-	-	-	-	-
(4) Appropriation of profits	-	-	6,428,999.61	(32,694,785.11)	(26,265,785.50)
1. Transfer to surplus reserve	-	-	6,428,999.61	(6,428,999.61)	-
2. Appropriation to general risk provision	-	-	-	-	-
3. Distribution to shareholders	-	-	-	(26,265,785.50)	(26,265,785.50)
(5) Carry-forward of owners' equity	-	-	-	-	-
(6) Special reserve	-	-	-	-	-
4. 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>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

1. GENERAL

Zhejiang Shibao Company Limited (hereafter referred to as the “Company”) is a joint stock limited company 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. The Company was established by ways of promotion jointly by Zhejiang Shibao Holding Group Co., Ltd., 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) on the basis of Zhejiang Shibao Steering Gear Co., Ltd.. The Company was registered and incorporated with Zhejiang Administration for Industry & Commerce on 30 April 2004. Its business license registration number is 330000400002163. The current share capital of the Company is RMB277,657,855 divided into a total of 277,657,855 shares (RMB1 for each share). Of which, shares with selling restrictions include 175,943,855 A shares and 0 H shares; shares without selling restrictions include 15,000,000 A shares and 86,714,000 H shares.

According to the approval of ZHENG JIAN GUO HE ZI [2005] 22 (證監國合字[2005]22號) issued by the China Securities Regulatory Commission, the Company completed the initial public offer of H Shares and was listed on the GEM of the Hong Kong Stock Exchange on 16 May 2006. 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.

According to the CSRC Approval [2012] No.898, the Company commenced the initial public offering of A Shares on 2 November 2012, and was listed on the Small and Medium-Sized Enterprise Board of Shenzhen Stock Exchange.

The Company operates in the automotive components manufacturing industry. 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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY

(1) Basis of Preparation of Financial Statements

The financial statements of the Company are presented on the going concern basis.

(2) Statement of Compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company have been prepared in accordance with the requirements of CASBE, and since 1 January 2013, the Company had early adopted six specific standards including “CASBE No. 2 Long-term Equity Investment”, “CASBE No. 9 Employee Benefits”, “CASBE No. 30 Presentation of Financial Statements” and “CASBE No. 33 Consolidated Financial Statements”, which are revised by the Ministry of Finance of the PRC in 2014, and “CASBE No. 39 Fair Value Measurement” and “CASBE No. 40 Joint Arrangements” which are newly issued by the Ministry of Finance of the PRC in 2014. The financial statements have truly and fully reflected the information of the Company, including the financial position, results of operations and cash flows.

(3) Accounting Year

The accounting year of the Company is from 1 January to 31 December of each calendar year.

(4) Functional Currency

The functional currency was Renminbi.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(continued)*

(5) Accounting Treatment for Business Combinations Involving and Not Involving Entities Under Common Control

1. Accounting treatment for business combinations involving entities under common control

Assets and liabilities obtained by the Company in the business combination are recognized at their carrying amounts at the combination date as recorded by the party being combined. The difference between the carrying amount of the consideration paid for the combination (or aggregate face values of the shares issued) and the carrying amount of the net assets obtained is adjusted to capital reserves. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained profits.

2. Accounting treatment for business combinations not involving entities under common control

The excess of the consideration paid for business combination over the share of the attributable net identifiable assets of the acquiree, measured at fair value at the combination date, was recognized as goodwill. In case the fair value of the consideration paid is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities of the acquiree and the consideration paid for the combination is conducted. If the review indicates that the fair value of the consideration paid is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognized in current profit or loss.

(6) Preparation Basis of Consolidated Financial Statements

The parent includes all subsidiaries under its control in the consolidation scope for consolidated financial statements, which are prepared by the parent pursuant to ASBE 33 — Consolidated financial statements based on the financial statements of the parent and its subsidiaries and other relevant information.

(7) Recognition Standards for Cash and Cash Equivalents

Cash shown in the Statement of Cash Flows comprises cash on hand and deposits readily available for payments. Cash equivalents represent short-term highly liquid investments which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

(8) Foreign Currency Translation

Upon initial recognition, foreign currency transactions are translated into Renminbi amounts using the spot exchange rate at the dates of the transactions. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The translation differences arising from different exchange rates, except those relating to the principle of and interests on the foreign currency borrowings for the acquisition, construction or production of assets eligible for capitalization, are recognized in current profit or loss. Also at the balance sheet date, foreign currency non-monetary items measured at historical cost continue to be translated using the spot exchange rate at the dates of the transactions and it does not change its carrying amount in Renminbi. Foreign currency nonmonetary items measured at fair value are translated using the spot exchange rate at the fair value recognition dates. The differences arising from the above translations are recognized in current profit or loss or capital reserves.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(continued)*

(9) Financial Instruments

1. Classification of financial assets and financial liabilities

The Company classifies its financial assets into four categories at initial recognition: financial assets at fair value through profit or loss (FVTPL) (including financial assets held for trading and financial assets designated as at FVTPL), held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

The Company classifies its financial liabilities into two categories at initial recognition: financial liabilities at FVTPL (including financial liabilities held for trading and financial liabilities designated at FVTPL) and other financial liabilities.

2. Recognition, measurement and derecognition of financial assets and financial liabilities

The Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument. Financial assets or financial liabilities are initially recognized at fair value. For financial assets or financial liabilities at FVTPL, the relevant transaction costs are directly recognized in current profit or loss; for other financial assets or financial liabilities, the relevant transaction costs are recognized in their initial recognition amount.

Financial assets are subsequently measured at fair value without deduction of the possible transaction costs upon the disposal thereof in the future, except that: (1) held-to-maturity investments and loans and receivables are measured using the effective interest method on the basis of amortised cost; and (2) equity investments not quoted in an active market and whose fair value cannot be reliably measured and derivatives linked to and settled by way of delivery of such equity investments are carried at cost.

Financial liabilities are subsequently measured using the effective interest method on the basis of amortised cost, except that: (1) financial liabilities at FVTPL are measured at fair value without deduction of the possible transaction costs upon the settlement thereof in the future; (2) derivative financial liabilities linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured are carried at cost; and (3) Financial guarantee contracts not classified as financial liabilities designated as at FVTPL or the loan commitment for loans to be granted at an interest rate below the market rate which is not designated as at FVTPL, after initial recognition, are subsequently measured at the higher of: (1) the amount determined under ASBE 13 – Contingency; and (2) the initial recognized amount less accumulated amortization determined according to ASBE 14 – Revenue.

Any gains or losses arising from the change in fair value on financial assets or financial liabilities, except for those falling under cash flow hedging, are accounted for as follows: (1) gains or losses arising from the change in fair value on financial assets or financial liabilities at FVTPL are recorded as gain or loss from changes in fair value. Interests or cash dividends received during the period in which such assets are held, are recognised as investment income. On disposal, the differences between the consideration received and initial recognised amount are recognised as investment income and adjust the gain or loss from changes in fair value accordingly; and (2) changes in fair value of available-for-sale financial assets are recorded in capital reserves. Interests calculated using the effective interest method for the period in which the assets are held, are recognised as investment income. Cash dividends from available-for-sale equity investments are recognised as investment income when the dividends are declared by the investee. On disposal, the differences between the consideration received and the carrying amount of assets after deducting the accumulated fair value adjustments previously recorded in capital reserves are recorded as investment income.

NOTES TO THE FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY (continued)

(9) Financial Instruments (continued)

2. Recognition, measurement and derecognition of financial assets and financial liabilities (continued)

A financial asset is derecognised when the contractual rights to receive cash flows from the asset have expired, or substantially all the risks and rewards associated with the ownership of the asset have been transferred. A financial liability is derecognised when the underlying present obligations (or part of it) are discharged.

3. Recognition and measurement of transfer of financial assets

If the Company has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognised. If the Company retains substantially all the risks and rewards of ownership of a financial asset, the transferred asset should continue to be recognized, with the received consideration recognized as a financial liability. When the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may (1) derecognise the financial asset and recognize any associated assets and liabilities if control of the financial asset has not been retained; or (2) recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability if control has been retained.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and the accumulated fair value adjustments previously recorded in total shareholders' equity, is recognised in current profit or loss. If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognised; and (2) the sum of the consideration received for the part derecognised and the accumulated fair value adjustments allocated to the part derecognised which has been previously recorded in total shareholders' equity, is recognised in current profit or loss.

4. Determination of fair value of primary financial assets and financial liabilities

For a financial asset or a financial liability which has an active market, the Company uses the quoted price in the active market to establish its fair value. For a financial asset or a financial liability which has no active market, the Company establishes fair value by using a valuation technique, which includes using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another financial instrument that is substantially the same, discounted cash flow analysis and option pricing models. For financial asset acquired or originated or, financial liability assumed initially, its fair value is based on the market transaction price.

5. Assessment and provision for impairment on financial assets

(1) The carrying amount of financial assets, other than financial assets at FVTPL, is assessed at the balance sheet date. Provision for impairment is made when there is objective evidence indicating that a financial asset is impaired.

(2) For a financial asset that is individually significant, the Company assesses the asset individually for impairment. For a financial asset that is not individually significant, the Company assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY (continued)

(9) Financial Instruments (continued)

5. Assessment and provision for impairment on financial assets (continued)

(3) If a financial asset carried at amortised cost is impaired as indicated by objective evidence at the period end, an impairment loss is recognized as the excess of the carrying amount of the asset over the present value of estimated future cash flows. If an equity investment not quoted in an active market and whose fair value cannot be reliably measured or a derivative financial asset linked to and settled by way of delivery of such equity investment is impaired, an impairment loss is recognized as the excess of the carrying amount of the investment or asset over the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. When there is a significant decline, or a prolonged decline is expected, in fair value of available-for-sale financial assets, taken into account all considerations, accumulated loss on fair value that previously recorded in equity is recorded as impairment loss.

(4) Objective evidence for the impairment of the available-for-sale financial assets

- 1) Objective evidence that the available-for-sale financial instruments are impaired include:
 - 1 significant financial difficulty of the debtor;
 - 2 a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
 - 3 creditors, for economic or legal reasons, grant concessions to the debtors with financial difficulties;
 - 4 it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
 - 5 the disappearance of an active market for that debt instrument because of financial difficulties faced by the issuer;
 - 6 other objective evidence showing signs of impairment on available-for-sale debt instruments.
- 2) Objective evidence of impairment on available-for-sale investments includes that the fair value of those equity instruments is exposed to significant or prolonged decline.

In the case of a significant or prolonged decline in the fair value of an available-for-sale financial asset, the cumulative loss arising from the decline in fair value that had been recognised directly in equity is removed from equity and recognised in impairment loss. If after an impairment loss has been recognized on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised in equity directly.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY (continued)

(10) Receivables

1. Individually significant receivables for which separate bad-debt provision is made

Basis of individually significant	A receivable amounts to RMB1 million or above
Basis of individually significant and for which bad debt provision has been separately made	Individually assessed for impairment with bad-debt provisions made based on the difference between the present value of its estimated future cash flows and its carrying amount.

2. Provision for bad debts by groups for receivables

Basis for determining the group	
Groups of receivables which are individually insignificant but have significant credit risks	Account receivables that doubtful debt provision made on group basis Receivables which do not exceed RMB1 million and are aged over 1 year and receivables which do not exceed RMB1 million and are aged within 1 year, receivables with no solid evidence that there is any significant change in the recoverability

Method of provision for bad debt by groups

Groups of receivables which are individually insignificant but have significant credit risks	According to the structure of the group of receivables and similar credit risk features (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience of losses and possible losses that are expected to incur based on the economic conditions of the debtors and the amount of the present value of the future cash flows from the receivables below the carrying amount shall be accounted for as provision for bad debts.
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3. Individually insignificant receivables for which separate bad-debt provision is made

Reason for making separate bad-debt provision	Positive evidence indicates that there is obvious difference in recoverability.
Method of provisioning for bad debt	Individually assessed for impairment with bad-debt provisions made based on the difference between the present value of its estimated future cash flows and its carrying amount.

For other receivables such as bill receivables, prepayments, interests receivable, and long-term receivables, bad-debt provisions are made based on the difference between the present value of its estimated future cash flows and its carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(continued)*

(11) Inventories

1. Classifications of inventories

Inventories are finished goods or merchandise held for sale in the ordinary course of business, or work in progress in the process of production for such sale, or materials or supplies to be consumed in the production process or in the rendering of services.

2. Cost of inventories transferred out

Cost of inventories transferred out is determined using the weighted average method at the end of every month.

3. Basis for determining the net realisable value of inventories and provision methods for decline in value of inventories

At the balance sheet date, inventories are carried at the lower of cost and net realisable value. Any excess of the cost over the net realisable value of each item/class of inventories is recognised as a provision for diminution in the value of inventories. For inventories directly for sale, net realisable value is measured based on the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale and relevant taxes. For inventories that need processing, net realisable value is measured based on the estimated selling price of finished goods in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. At the balance sheet date, for an item of inventories where a portion is subject to contractual price while the remainder is not, their net realisable values are determined and compared with their corresponding costs respectively to recognise the amount of provision, or reversal of provision, for diminution in the value of inventories.

4. Inventory system

The Company maintains a perpetual inventory system.

5. Amortisation methods for consumables including low-value consumables and packaging materials

(1) *Low-value consumables*

Low-value consumables are amortised in full when received for use.

(2) *Packaging materials*

Packaging materials are amortised in full when received for use.

(12) Long-Term Equity Investments

1. Determination of investment cost

(1) The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control shall be the Company's share of the carrying amount of shareholders' equity of the party being combined at the combination date, if the consideration for such combination is settled in cash, by way of transfer of non-cash assets or assumption of liabilities. The difference between the initial investment cost of the long-term equity investment and the total amount of cash paid, non-cash assets transferred and liabilities assumed shall be adjusted to capital reserve. If the balance of the capital reserve is insufficient, any excess is adjusted to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY (continued)

(12) Long-Term Equity Investments (continued)

1. Determination of investment cost (continued)

(1) (continued)

If the consideration for such combination is settled by issuance of equity securities by the merging party, the initial investment cost shall be the Company's share of the carrying amount of shareholders' equity of the party being combined at the combination date. If the capital is taken to be the total par value of the shares issued, the difference between the initial investment cost of the long term equity investment and the total par value of the shares issued shall be adjusted to capital reserve. If the balance of the capital reserve is insufficient, any excess is adjusted to retained profits.

- (2) For a long-term equity investment obtained through a business combination not involving entities under common control, the initial investment cost is the fair value of the consideration given for combination at the acquisition date.

As for business combinations which involve enterprises not under common control and are carried out in stages, the accounting treatment of separate financial report and consolidated financial report shall be different:

- 1) In the separate financial report, the initial investment cost which is accounted for using the newly adopted cost method is the sum of carrying value of equity investment originally held and the addition of investment cost. Other comprehensive income recognized when the equity investment held on the acquisition date is accounted for using equity accounting method shall be subject to accounting treatment on the same basis adopted by the investee in its direct disposal of related assets or liabilities upon such disposal. Equity investment held prior to the acquisition date is subject to accounting treatment in accordance with relevant requirements provided in the Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments. Accumulated changes in fair value shall be removed from other comprehensive income and transferred to the profit and loss when the cost method is adopted.
- 2) In the consolidated financial report, the equity interest held in the acquiree before the acquisition date shall be revalued at fair value of the equity interest on the acquisition date. The difference between the carrying amount and the fair value shall be recognized as investment income of current period. If there is other comprehensive income from the equity interest held in the acquiree prior to the acquisition date, the comprehensive income shall be stated as the current investment income incurred on the acquisition date.
- (3) A long-term equity investment acquired otherwise than through a business combination is initially recognised at the actual consideration paid if the investment is acquired by cash, or at the fair value of the equity securities issued if the investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if the investment is contributed by shareholders, unless the value so agreed is deemed unfair.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(continued)*

(12) Long-Term Equity Investments *(continued)*

2. Subsequent measurement and recognition

When the Company controls the investee, a long-term equity investment is accounted for using the cost method, and adjusted to equity method when preparing consolidated financial statements. The cost method is used for long-term equity investment of associates and joint ventures.

3. Basis for determining the existence of significant influence over an investee

Significant influence is the power to participate in the financial and operating policy decisions of investee but is not control or joint control over those policies.

4. Impairment test and provision methods for impairment

For an investment in subsidiaries, associates, and jointly controlled entities, an impairment is provided for based on the excess of the carrying amount over the recoverable amount when there is objective evidence that the investment is impaired at the balance sheet date.

(13) Joint Arrangement

1. The joint arrangement refers to an arrangement jointly controlled by two or more parties. It is divided into the joint operation and the joint venture.
2. When the Company is a party of a joint operation, the following items associated with the interest share of the joint operation will be recognized:
 - (1) the assets separately held and the assets jointly held according to the holding shares;
 - (2) the liabilities separately assumed and the liabilities jointly assumed according to the holding shares;
 - (3) the revenue arising from the recognition of the share of the joint operation attributable to the disposal company;
 - (4) the revenue arising from the disposal of assets of the joint operation according to the holding shares of the Company;
 - (5) the expenses incurred recognised unilaterally and the expenses incurred in the joint operation recognised according to the holding shares.
3. Where the Company is a joint party of a joint venture, the investment in the joint venture is recognised as the long-term equity investment and will be calculated in the methods asset out in Note 2 (12) of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY (continued)

(14) Fixed Assets

1. Recognition, measurement and depreciation of fixed assets

Fixed assets represent the tangible assets held for production or supply of goods or services, rental or for administrative purposes with useful lives over one accounting year.

Fixed assets are accounted for at the actual cost on acquisition and depreciated using the straight-line method from the following month after they are ready for intended use.

2. Depreciation of fixed assets

Class	Useful life (years)	Residual value rate (%)	Annual depreciation rate (%)
Buildings	10-70	5	1.36-9.50
Machinery and equipment	5-15	5	6.33-19.00
Motor vehicles	4-8	5	11.88-23.75
Office equipment and others	3-10	5	9.50-31.67

3. Impairment test methods and impairment provision methods for fixed assets

At the balance sheet date, an impairment is provided for based on the excess of the carrying amount over the recoverable amount when there is evidence that the fixed assets are impaired.

(15) Construction In Progress

1. Construction-in-progress is recognised when the inflow of economic benefits is probable and the cost can be reliably measured, and is measured at the actual cost incurred till it is ready for intended use.
2. Construction-in-progress is transferred into fixed assets when it is ready for its intended use based on the actual cost. For a completed project ready for intended use but with final account unsettled, the asset is transferred into fixed assets based on estimated value. After final account of the project has been settled, the Company shall base on actual cost to make adjustment on the previous estimated value, but need not to adjust the depreciation retrospectively.
3. At the balance sheet date, an impairment is provided for based on the excess of the carrying amount over the recoverable amount when there is evidence that the construction-in-progress is impaired.

(16) Borrowing Costs

1. Capitalization of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or origination of assets qualified for capitalization are capitalized as part of the cost of those assets. Other borrowing costs are expensed and charged to current profit or loss when incurred.

2. Timing of borrowing costs capitalization

- (1) Borrowing costs shall be capitalized when: (1) capital expenditures and (2) borrowing costs have been incurred, and (3) activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY (continued)

(16) Borrowing Costs (continued)

2. Timing of borrowing costs capitalization (continued)

- (2) Capitalization of borrowing costs should be suspended during periods in which abnormal interruption has lasted for more than three months during the process of acquisition, construction or production of assets qualified for capitalization. The borrowing cost incurred during interruption is recognised as current expenses until the acquisition, construction or production activities resume.
- (3) The capitalization of borrowing costs ceases when the assets acquired, constructed or produced and qualified for capitalization are ready for their intended use or sale.

3. Capitalized amount of borrowing costs

For specific borrowings used to acquire, construct or produce assets qualified for capitalization, the amount of interest costs (including amortization of discount or premium determined using the effective interest method) actually incurred on such borrowings for the period shall be capitalized after deducting any interest earned from depositing the unused borrowings in the bank or any investment income arising from the temporary investment of those borrowings during the capitalization period. For general borrowings used to acquire, construct or produce assets qualified for capitalization, the capitalized amount of interests on general borrowings shall be determined on the basis that the weighted average (of the excess of cumulative assets expenditures over the specific borrowings) times capitalization rate (of used general borrowings).

(17) Intangible Assets

1. Intangible assets, including land use rights, patent rights and non-patented technologies, are initially measured at cost.
2. Intangible assets with definite useful lives are reasonably amortized over their useful lives based on the pattern of the economic benefits relating to the intangible assets are expected to be realised. Intangible assets whose economic benefits realization pattern cannot be reliably anticipated are amortised on a straight-line basis over the following useful life:

Item	Estimated useful life (year)
Land use rights	50
Patented technology	10
Non-patented technology	5-10
Management software	5

3. For intangible assets with definite useful lives, an impairment is provided for based on the excess of the carrying amount over the recoverable amount when there is evidence at the balance sheet date that the intangible assets are impaired. For intangible assets with indefinite useful lives and those not ready for use, an impairment test is performed each year, irrespective of whether there is evidence of impairment.
4. Expenditures for internal research and development activities are expensed in the period as incurred. The expenses of internal research and development projects during the development stage are recognised as intangible assets when all of the following conditions are satisfied: (1) The completion of such intangible assets for use or sale is technically feasible; (2) The Company has the intention to use or sell the intangible assets upon completion; (3) The way in which the intangible assets bring economic benefits shows that there exists consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilisation; (4) The Company has sufficient technological, financial and other resources to complete the development of the intangible assets and the ability to make them available for use or sale; (5) The expenses attributable to such intangible assets can be measured reliably at the development stage.

NOTES TO THE FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY (continued)

(18) Long-Term Prepaid Expenses

Long-term prepaid expenses are measured at actual amount and amortized evenly over the beneficial or required period. If the Long-term prepaid expenses are no longer beneficial to the subsequent accounting periods, the unamortized balance is then fully transferred to current profit or loss.

(19) Provision

1. Provisions are recognized when the Company has a present obligation as a result of contingencies such as provision of external guarantee, litigation, quality warranty, and loss-making contract, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.
2. Provisions are initially stated at the best estimate of the expenditure expected to settle the present obligation. Carrying value of all provisions are reviewed at each balance sheet date.

(20) Employee Benefits

1. Employee benefits include short-term benefits, post-employment benefits, dismissal benefits and other long-term employee benefits.
2. During the accounting period when the employee provides services to the Company, the actually short-term benefits will be recognized as debts and in the current profit or loss or related assets cost.
3. Post-employment benefits are divided into the established withdrawal and deposit plan and the established benefit plan.
 - (1) The Company will recognize the amounts shall be deposited as the debts according to the established withdrawal and deposit plan and recognize them in the current profit or loss or relevant assets cost during the period when the employee provides services to the Company.
 - (2) The accounting treatment on the established benefit plan generally includes the following procedures:
 - 1) According to the projected unit credit method, the Company adopted unbiased and mutually agreed actuarial assumptions to estimate the relevant demographic variables and financial variables, calculate the obligations arising from the defined benefit plan and determine the period of relevant obligations belonging to;
 - 2) Where there are assets in the defined benefit plan, the deficit or surplus from the present value of the defined benefit plan less the fair value of the defined benefit plan are recognised as a net debt or asset of a defined benefit plan. Where there are surplus in the defined benefit plan, the lower of the surplus of the defined benefit plan and the upper limit of the assets will be used to calculate the net assets of the defined benefit plan. The upper limit of assets refers to the present values of the economic benefits arising from the refund of the defined benefit plan or the reduction of the contribution to the defined benefit plan in the future;
 - 3) At the end of the period, the cost of employee benefits from the defined benefit plan will be recognized as the service cost, the net interest on the net assets or net debts from the defined benefit plan and the changes arising from the remeasurement of the net assets or net debts from the defined benefit plan. Of which, the service cost and the net interest on the net assets or net debts from the defined benefit plan will be recognized in the current profit or loss or relevant assets cost. The changes arising from the remeasurement of the net assets or net debts from the defined benefit plan will be recognized in other comprehensive income and shall not be reversed to the profit or less in subsequent accounting periods, but the amounts recognized in other comprehensive income can be transferred within the scope of interests;
 - 4) The gains or losses on a settlement will be recognized at the establishment of a benefit plan.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(continued)*

(20) Employee Benefits *(continued)*

4. When the Company provides dismissal benefits to the employee, the employee benefits debts arising from the recognition of dismissal will be recognized in the current profit or loss at the earlier of: (1) when the Company cannot unilaterally withdraw the dismissal benefits for the release of the labour relationship or the dismissal proposal; and (2) when the Company recognized relevant costs or expenses associated with the reorganization of the payment of the dismissal benefits.
5. Other long-term benefits provided by the Company to the employee, when meeting the determined conditions for withdrawal and deposit plan will conduct accounting treatment according to the determined withdrawal and deposit plan. Other long-term benefits other than this will conduct accounting treatment according to the determined benefit plan. Changes from the remeasurement of the net debts or assets of other long-term benefits will be recognized in the relevant assets cost after the current profit or loss.

(21) Revenue

1. Principles of revenue recognition

(1) *Sales of goods*

Revenue from sales of goods is recognised when: (1) the significant risks and rewards of ownership have been transferred to the buyer; (2) the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) related economic benefits are likely to flow into the Company; and (5) related costs incurred or to be incurred can be measured reliably.

(2) *Rendering of services*

At the balance sheet date, when transaction result of the rendering of services could be measured reliably (which means the amount of revenue can be measured reliably, the relevant economic benefits will probably flow to the Company, the percentage of construction work and relevant cost incurred or to be incurred can be measured reliably), related revenue from rendering of services is recognized according to the percentage of completion. The percentage of completion is based on the percentage of services rendered relative to the total volume of services to be rendered. When transaction result of the rendering of services could not be measured reliably at the balance sheet date, revenue from rendering of services is recognised as the service cost incurred which is carried forward if the costs of services rendered are expected to be compensated, otherwise it is not recognised with such costs recorded in the current profit or loss.

(3) *Transfer of assets use rights*

Revenue from transfer of assets use rights is recognised when the relevant economic benefits will probably flow to the Company, and the amount of revenue can be measured reliably. Interest income is recognized according to the length of time for which the Company's monetary funds are used by others and the effective interest rate. Income from usage fee is recognized according to timing and method as agreed under relevant contracts or agreements.

2. Methods of revenue recognition

The Company is mainly engaged in the sales of automotive steering gears and other components and parts. Revenue of products for domestic sales are recognized when the following conditions are satisfied: the Company has delivered the goods to buyers according to contracts, the sales amounts are certain, the payment or payment receipts have been collected, the future economic benefits associated with the items will probably flow to the Company and the costs of the relevant products can be measured reliably. Revenue of products for export sales are recognized when the following conditions are satisfied: the Company has completed the procedures for Customs clearance and shipped out the products, the bills of lading have been collected, the payments or payment receipts have been collected, the future economic benefits associated with the items will probably flow to the Company and the costs of the relevant products can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(continued)*

(22) Government Grant

1. Government grants include government grants relating to assets and those relating to income. The government subsidies obtained by the Company to purchase or construct long-term assets or otherwise are government subsidies pertinent to assets. Other than government subsidies pertinent to assets, other government subsidies are government subsidies pertinent to income.
2. Where there are evidences showing that the Company meets the requirements of the financial supporting policies and it is expected that the financial supporting funds will be received, the government grant is recognized on the receivables. Otherwise, the government grant is recognized when actually received.
3. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value.
4. Government grants relating to assets are recognised as a deferred income and allocated to current profit or loss over the expected useful life of the relevant asset by equal annual instalments. Government grants relating to income and applied towards reimbursement of related costs or losses in subsequent periods are recognised as deferred income and taken to current profit or loss for the period in which the related costs are recognized. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognized in current profit or loss.

(23) Deferred Tax Assets and Deferred Tax Liabilities

1. Deferred tax assets or deferred tax liabilities are recognised based on the difference between the carrying amounts of the assets or liabilities and their tax bases (or, for an item not recognised as assets or liabilities but whose tax base can be determined under tax laws, the difference between the tax base and the carrying amount), and are calculated at the tax rates expected to apply to the period in which the assets are recovered or the liabilities are settled.
2. Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. At the balance sheet date, deferred tax assets unrecognised in prior periods are recognised to the extent that there is obvious evidence that it has become probable that sufficient taxable profit will be available in subsequent periods against which the deductible temporary differences can be utilised.
3. The carrying amount of deferred tax assets is reviewed at the balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax asset can be utilised. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.
4. The Company's current and deferred income taxes are recognised in current profit or loss as tax expense or profit, excluding income tax arising from (1) business combination, and (2) as transactions or items directly recognised in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY (continued)

(24) Operating Leases

When the company acts as lessee, rental expenses under operating leases are recognized as relevant asset costs or in current profit or loss on the straight-line basis over the lease term, with any initial direct cost incurred directly charged to current profit or loss. Contingent rental is charged to current profit or loss when incurred.

When the company acts as lessor, rental under operating leases are recognized in current profit or loss on the straight-line basis over the lease term, with any initial direct cost incurred (other than those with huge amounts to be capitalized and charged into profit or loss phase by phase) directly charged to current profit or loss. Contingent rental is credited to current profit or loss when incurred.

(25) Changes of Significant Accounting Policies

As stated in Note 2 (2) to the financial statements, the financial statements of the Company have been prepared in accordance with the requirements of CASBE, and since 1 January 2013, the Company had early adopted six specific standards including "CASBE No. 2 Long-term Equity Investment", "CASBE No. 9 Employee Benefits", "CASBE No. 30 Presentation of Financial Statements" and "CASBE No. 33 Consolidated Financial Statements", which are revised by the Ministry of Finance of the PRC in 2014, and "CASBE No. 39 Fair Value Measurement" and "CASBE No. 40 Joint Arrangements", which are newly issued by the Ministry of Finance of the PRC in 2014.

The implementation of the above six specific accounting standards has no effect on the comparison data of the financial statements of 2013.

(26) Significant Accounting Judgement and Estimates

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Key assumptions of the estimates and judgments of uncertain factors are reviewed on an ongoing basis by the Company. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The following accounting estimates and key assumptions contain significant risks which would result in significant adjustment of the carrying amount of assets and liabilities for next fiscal year.

1. Recognition of deferred tax assets

As stated in Note 2(23) to the Financial Statements, deferred tax assets are recognized by the Company at the deductible temporary difference between the carrying amount of assets and liabilities and their tax bases (or, for an item not recognized as assets or liabilities but whose tax base can be determined under tax laws, the difference between the tax base and the carrying amount) based on the tax rate applicable to the period when the asset is recovered or the liability is settled. Deferred tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. At the balance sheet date, deferred tax assets unrecognized in prior periods are recognized to the extent that there is obvious evidence that it has become probable that sufficient taxable profit will be available in subsequent periods against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax asset can be utilized. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.

2. Provision for doubtful debt

As stated in Note 2(10) to the Financial Statements, the Company conducts individual impairment tests for receivables that are individually significant and are provided for doubtful debts on individual basis, provision for doubtful debts will then be made for the difference if the present value of future cash flow is lower than its carrying amounts; For receivable portfolios that are individually insignificant but with relatively high credit risk, provision for doubtful debts will be made for the difference if the present value of future cash flow is lower than its carrying amounts, based on the structure of the receivable portfolio and similar credit risk characteristics (debtors' ability to settle outstanding amounts based on contracted terms) and taking into account the historical losses and the expected potential losses arising from the debtor's economic conditions; For receivables that are individually insignificant but are provided for doubtful debts on individual basis, individual impairment tests will be conducted and provision for doubtful debts will then be made for the difference if the present value of future cash flow is lower than its carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY (continued)

(26) Significant Accounting Judgement and Estimates (continued)

3. Provision for inventory obsolescence

As stated in Note 2(11) to the Financial Statements, as at the balance sheet date, the Company's inventories are stated at the lower of cost and net realizable value, provision for inventory obsolescence will be made based on the surplus of cost over net realizable value of inventories on an individual basis; For inventories for direct sales, net realizable value is recognized at the estimated selling price of such inventories in the ordinary course of business, less estimated costs necessary to make the sale and relevant taxes; For inventories which require processing before sale, net realizable value is recognized at the estimated selling price of the finished goods produced in the ordinary course of business, less estimated costs to be incurred upon completion, costs necessary to make the sale and relevant taxes; As at the balance sheet date, for an item of inventories where a portion is subject to contractual price while the remainder is not, their net realizable values are determined and compared with their corresponding costs respectively to recognize the amount of provision, or reversal of provision, for inventory obsolescence.

3. TAXATION

(1) Major taxes and tax rates

Type of tax	Basis	Tax rate
Value added tax	Sales of goods or rendering of taxable services	17% (Note 1)
Business tax	Amount of payable business tax	5%
Property tax	On the property value less 30%, or on rents	1.2%, 12%
Urban maintenance and construction tax	Amount of payable turnover tax	7%, 5%
Education surcharge	Amount of payable turnover tax	3%
Local education surcharge	Amount of payable turnover tax	2%
Corporate income tax	Amount of taxable profit	15%, 25% (Note 2)

(Note 1): Hangzhou Shibao Auto Steering Gear Sales Co., Ltd., a controlling subsidiary, enjoys the policy of "exempt, credit, refund" with an export tax refund rate of 17%.

(Note 2): Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. and Siping Steering Gear Co., Ltd., the controlling subsidiaries, were approved as high-tech enterprises subject to a tax rate of 15%;

The Company and other controlling subsidiaries are subject to a tax rate of 25%.

(2) Tax concession and approval documents

1. According to the Document (Zhe Ke Fa Gao [2011] No. 263) 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 controlling subsidiary of the Company, was recognized as a high-tech enterprise in 2011 with a valid period from 2011 to 2013. It is subjected to an income tax rate of 15% during this period.
2. According to the Document (Ji Ke Ban Zi [2012] No.182) 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 controlling subsidiary of the Company, was recognized as a high-tech enterprise in 2012 with a valid period from 2012 to 2014. It is subjected to an income tax rate of 15% during this period.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Particulars of subsidiaries

1. Subsidiaries acquired by way of incorporation or investment

Name of subsidiary	Type of subsidiary	Place of registration/ Principal place of business	Nature of business	Registered capital	Scope of business	Organisation number
Hangzhou Shibao Auto Steering Gear Co., Ltd.	Limited liability company	Hangzhou, Zhejiang/China	Production and manufacturing	69 million	Manufacture of steering gear and automotive parts and components	25392555-4
Hangzhou New Shibao Electric Power Steering Co., Ltd.	Limited liability company	Hangzhou, Zhejiang/China	Production and manufacturing	60 million	Manufacture of power steering system and other components for automobiles	76823319-4
Jilin Shibao Machinery Manufacturing Co., Ltd.	Limited liability company	Siping, Jilin/China	Production and manufacturing	30 million	Processing and sale of stamping machinery, manufacture and sales of automotive parts and components, as well as casting and forging	67730447-9
Siping Steering Gear Co., Ltd.	Limited liability company	Siping, Jilin/China	Production and manufacturing	11 million	Manufacture of power steering gears and steering knuckles for sedans	70221708-7

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Particulars of subsidiaries (continued)

1. Subsidiaries acquired by way of incorporation or investment (continued)

Name of subsidiary	Effective capital contribution at the end of the period	Balance of other items effectively representing net investment in subsidiary	Percentage of shareholding (%)	Percentage of voting rights (%)	Whether statements are consolidated
Hangzhou Shibao Auto Steering Gear Co., Ltd.	70.4618 million		100.00	100.00	Yes
Hangzhou New Shibao Electric Power Steering Co., Ltd.	42 million		70.00	70.00	Yes
Jilin Shibao Machinery Manufacturing Co., Ltd.	30 million		100.00	100.00	Yes
Siping Steering Gear Co., Ltd.	8.25 million		75.00	75.00	Yes

Name of subsidiary	Minority interests	Amount in minority interests offsetting profit and loss thereof	Amount of parent's interests offsetting current loss shared by minority interests over minority interests' share in such subsidiary at beginning of year
Hangzhou Shibao Auto Steering Gear Co., Ltd.			
Hangzhou New Shibao Electric Power Steering Co., Ltd.	7,614,460.63		
Jilin Shibao Machinery Manufacturing Co., Ltd.			
Siping Steering Gear Co., Ltd.	3,250,000.00		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Particulars of subsidiaries (continued)

2. Subsidiaries acquired through business combination not under common control

Name of subsidiary	Type of subsidiary	Place of registration/ Principal place of business	Nature of business	Registered capital	Scope of business	Organisation number
Beijing Autonics Technology Co., Ltd.	Limited liability company	Beijing/China	Technology development	10 million	Technology development and sale of electronic equipment etc.	77861581-5
Wuhu Sterling Steering System Co., Ltd.	Limited liability company	Wuhu, Anhui/China	Production and manufacturing	22.8 million	Develop, manufacture and sale of automobile steering system and related products	76900919-4
Erdos Sterling Steering System Co., Ltd. (鄂爾多斯市世特瑞轉向系統有限公司)	Limited liability company	Erdos, Inner Mongolia/China	Production and manufacturing	10 million	Develop, manufacture and sale of automobile steering system and related products	05392555-X

Name of subsidiary	Effective capital contribution at the end of the period	Balance of other items effectively representing net investment in subsidiary	Percentage of shareholding (%)	Percentage of voting rights (%)	Whether statements are consolidated
Beijing Autonics Technology Co., Ltd.	7 million		70.00	70.00	Yes
Wuhu Sterling Steering System Co., Ltd.	19.4474 million		57.89	57.89	Yes
Erdos Sterling Steering System Co., Ltd. (鄂爾多斯市世特瑞轉向系統有限公司)	10 million		(Note)	(Note)	Yes

Name of subsidiary	Minority interests	Amount in minority interests offsetting profit and loss thereof	Amount of parent's interests offsetting current loss shared by minority interests over minority interests' share in such subsidiary at beginning of year
Beijing Autonics Technology Co., Ltd.	2,344,323.00		
Wuhu Sterling Steering System Co., Ltd.	18,670,628.71		
Erdos Sterling Steering System Co., Ltd. (鄂爾多斯市世特瑞轉向系統有限公司)			

(Note): Wuhu Sterling Steering System Co., Ltd., a controlling subsidiary, holds 100% equity interests of this company.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Explanation of the changes of the consolidation scope

According to the Equity Transfer Contract entered into between the Company and Wuhu Chery Technology Co., Ltd. on 30 January 2013, Wuhu Chery Technology Co., Ltd. transferred 6% of equity interests held by it in Wuhu Sterling Steering System Co., Ltd. to the Company at a consideration of RMB3 million. At the same time, the Company increased its capital contribution to Wuhu Sterling Steering System Co., Ltd. by RMB7 million (RMB2.8 million was contributed as registered capital). After the above transfer and the increase of capital, the registered capital of Wuhu Sterling Steering System Co., Ltd. was changed to RMB22.8 million, of which the Company contributed RMB13.2 million, accounting for 57.89% of its registered capital. The Company has completed the industry and commerce registration procedures on 22 April 2013 and has been adopted in the scope of the consolidated financial statements since May 2013.

Wuhu Sterling Steering System Co., Ltd. holds 100% equity interests of Erdos Sterling Steering System Co., Ltd. (鄂爾多斯市世特瑞轉向系統有限公司) and has been adopted in the scope of its consolidated financial statements since May 2013.

(3) Relevant financial information of subsidiaries included in the scope of consolidation in the current period

Name	Net asset at the end of the period	Net profit of the period
Wuhu Sterling Steering System Co., Ltd.	44,998,721.91	(260,042.81)
Erdos Sterling Steering System Co., Ltd. (鄂爾多斯市世特瑞轉向系統有限公司)	9,697,898.31	(16,700.47)

(4) Business combination not under common control in the current period

1. Recognition of goodwill

Acquiree	Amount of goodwill	Method of goodwill calculation
Wuhu Sterling Steering System Co., Ltd.	4,694,482.34	The excess of the consideration paid for business combination over the share of the attributable net identifiable assets of the acquiree, measured at fair value at the date of acquisition, was recognized as goodwill.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Business combination not under common control in the current period (continued)

2. Business combinations which involve enterprises not under common control and are carried out in stages

(1) Equity interests obtained in the past

Obtaining time	Obtaining costs	Proportion of equity (%)	Obtaining methods
18 November 2004	7,200,000.00	36.00	Capital contribution
24 October 2011	5,409,936.00	10.00	Transfer
22 April 2013	10,000,000.00	11.89	Transfer and capital contribution

(2) Relevant gains and losses

Carrying amount of the previously held equity prior to the acquisition date on the acquisition date	Fair value of the previously held equity prior to the acquisition date on the acquisition date	Gains or losses arising from the remeasurement based on the fair value	Amount transferred to investment revenue from other comprehensive income associated with the previously held equity prior to the acquisition date
9,447,407.38	20,525,972.43	11,078,565.05	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Notes to the Consolidated Balance Sheet

1. Cash on hand and at bank

(1) Breakdown

Item	Balance at the end of the period			Balance at the beginning of the period		
	Original currency	Conversion rate	Equivalent RMB	Original currency	Conversion rate	Equivalent RMB
Cash:						
RMB			352,452.51			80,461.14
Sub-total			352,452.51			80,461.14
Bank deposits:						
RMB			56,283,246.85			76,662,646.47
US\$	21,064.48	6.0969	128,428.03	1,848.97	6.2855	11,642.47
HK\$	21,842.14	0.7862	17,172.95	22,139.25	0.8108	18,039.06
CHF	55.41	6.8336	378.65	55.41	6.8219	378.00
ECU€	217,100.26	8.4189	1,827,745.37			
Sub-total			58,256,971.85			76,692,706.00
Other monetary funds:						
RMB			8,340,703.35			1,770,509.77
Sub-total			8,340,703.35			1,770,509.77
Total			66,950,127.71			78,543,676.91

(2) Notes on funds restricted in use, placed overseas, or facing potential recovery risks due to charge, pledge, or freeze.

Other monetary funds at the end of the period represents the guarantee deposits for the issuance of the bank acceptance bills.

Monetary funds deposited overseas at the end of the period amounted to HKD21,842.14, equivalent to RMB17,172.95.

2. Notes receivable

(1) Breakdown

Type	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for bad debts	Book value	Carrying amount	Provision for bad debts	Book value
Bank acceptance bills	107,726,195.93		107,726,195.93	117,298,613.04		117,298,613.04
Total	107,726,195.93		107,726,195.93	117,298,613.04		117,298,613.04

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

2. Notes receivable (continued)

(2) At the end of period, the top five largest notes receivable pledged were as follows:

Issuer	Date of issuance	Due date	Amount	Remarks
Beijing Yuan Liu South East Trading Co., Ltd. (北京源流東南貿易有限公司)	2013.11.26	2014.05.26	4,100,000.00	
Longyan City Long Chang Automobile Sales Co., Ltd. (龍岩市龍昌汽車貿易有限公司)	2013.09.23	2014.03.23	3,000,000.00	
Huizhou City Da Hua Automobile Trading Co., Ltd. (惠州市大華汽車銷售有限公司)	2013.08.28	2014.01.04	2,302,000.00	
Chengde City Le Chi Automobile Sales Co., Ltd. (承德市樂馳汽車銷售有限公司)	2013.10.11	2014.04.11	2,000,000.00	
Tianjin Automobile Industry Transportation Taxi Sales Co., Ltd. (天津汽車工業交通出租車銷售有限公司)	2013.07.30	2014.01.30	1,500,000.00	
Sub-total			<u>12,902,000.00</u>	

(3) At the end of period, 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	Remarks
Wuhan Ling Feng Automobile Sales Co., Ltd. (武漢峻風汽車銷售有限公司)	2013.07.02	2014.01.02	3,300,000.00	
Shanxi Ao Te Seng Automobile Trading Service Co., Ltd. (陝西奧特森汽車貿易服務有限公司)	2013.07.03	2014.01.03	3,000,000.00	
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	2013.09.23	2014.03.23	3,000,000.00	
Anhui Cherry Automobile Sales Co., Ltd. (安徽奇瑞汽車銷售有限公司)	2013.11.19	2014.05.12	3,000,000.00	
Xian Li Heng Automobile Sales Service Co., Ltd. (西安利亨汽車銷售服務有限公司)	2013.07.03	2014.01.03	2,700,000.00	
Sub-total			<u>15,000,000.00</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

3. Accounts receivable

(1) Breakdown

1) Breakdown by categories

Categories	Balance at the end of the period				Balance at the beginning of the period			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Individually significant amount with bad debt provision on individual basis	252,592,597.66	90.23			262,419,682.48	91.54		
Individually insignificant but significant based on credit risk characteristics	5,144,761.82	1.84	1,257,588.12	24.44	2,534,021.64	0.88	874,621.28	34.52
Individually insignificant amount with bad debt provision on individual basis	22,191,629.99	7.93			21,708,923.56	7.58		
Total	279,928,989.47	100.00	1,257,588.12	0.45	286,662,627.68	100.00	874,621.28	0.31

2) The aging analysis of accounts receivable is as follows:

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount		Provision for	Carrying amount		Provision for
	Amount	(%)	bad debts	Amount	(%)	bad debts
Within 1 year	270,959,461.83	96.80		282,502,420.92	98.54	
1-2 years	5,583,980.77	1.99	16,345.62	1,476,642.22	0.52	
2-3 years	1,300,522.42	0.46	157,317.29	1,678,563.32	0.59	
Over 3 years	2,085,024.45	0.75	1,083,925.21	1,005,001.22	0.35	874,621.28
Subtotal	279,928,989.47	100.00	1,257,588.12	286,662,627.68	100.00	874,621.28

Trading terms of the Company and its subsidiaries with their 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.

3) Individually significant amount with bad debt provision on individual basis

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Receivables of sales payment from FAW-Car Co., Ltd. and others	252,592,597.66			Individual impairment test showed no risk was expected of balance recover.
Sub-total	252,592,597.66			

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

3. Accounts receivable (continued)

(1) Breakdown (continued)

4) Provision for bad debts by groups

Group name	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	5,144,761.82	24.44	1,257,588.12
Sub-total	5,144,761.82	24.44	1,257,588.12

5) Individually insignificant amount with bad debt provision on individual basis

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Receivables of sales payment from Beiqi Foton Automobile Co., Ltd. Beijing Ou Hui Bus Sub-company and others	22,191,629.99			Individual impairment test showed no risk was expected of balance recover.
Sub-total	22,191,629.99			

(2) Reversed or recovered during the period

Description	Reason to reverse or recover	Original criterias to recognize the provision for bad debts	Accumulated amount of provision for bad debts before reverse or recover	Reversed or recovered amount
Nanjing Dong Hua Automobile SteeringGear Co., Ltd. (南京東華汽車轉向器有限公司)	Remaining balance recovered	Expected of balance unrecovered	94,702.91	94,702.91
Qingdao Qing Qi Industry Co., Ltd. Automobile Spareparts Distribution Division (青島青汽實業有限公司汽車配件經銷處)	Remaining balance recovered	Expected of balance unrecovered	60,000.00	60,000.00
Changzhou Dong Feng Automobile Co., Ltd. (常州東風汽車有限公司)	Remaining balance recovered	Expected of balance unrecovered	48,118.96	48,118.96
FAW Group Harbin Light Duty Vehicle Plant (中國第一汽車集團哈爾濱輕型車廠)	Remaining balance recovered	Expected of balance unrecovered	46,560.52	46,560.52
Shanxi Da Yun Automobile Manufacturing Co., Ltd. etc. (山西大運汽車製造有限公司等)	Remaining balance recovered	Expected of balance unrecovered	12,682.79	12,682.79
Sub-total			262,065.18	262,065.18

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

3. Accounts receivable (continued)

(3) As at the end of the period, the Group had no accounts receivable from any shareholders holding 5% (inclusive) or more of the voting rights of the Company.

(4) The five largest accounts receivable

Name	Relationship with the Company	Carrying amount	Ageing	Percentage of total accounts receivable (%)
FAW-Car Co., Ltd. (一汽轎車股份有限公司)	Non related party	49,845,051.93	Within 1 year	17.81
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	Non related party	39,312,265.77	Within 1 year	14.04
Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司)	Non related party	22,699,092.93	Within 1 year	8.11
Cherry Automobile Co., Ltd. (奇瑞汽車股份有限公司)	Non related party	20,014,989.14	Within 1 year	7.15
SAZEH GOSTAR SAIPA CO.	Non related party	18,144,490.79	Within 1 year	6.48
Sub-total		150,015,890.56		53.59

(5) As at the end of the period, there was no accounts receivable from any related parties.

4. Prepayments

(1) Ageing analysis

Ageing	Balance at the end of the period				Balance at the beginning of the period			
	Carrying amount	Provision for bad debts (%)	Book value		Carrying amount	Provision for bad debts (%)	Book value	
Within 1 year	5,922,199.46	89.11	5,922,199.46		6,429,311.52	85.81	6,429,311.52	
1-2 years	556,216.43	8.37	556,216.43		812,697.57	10.85	812,697.57	
2-3 years	167,167.08	2.52	167,167.08		250,511.95	3.34	250,511.95	
Total	6,645,582.97	100.00	6,645,582.97		7,492,521.04	100.00	7,492,521.04	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

4. Prepayments (continued)

(2) The five largest prepayments

Name	Relationship with the Company	Balance at the end of the period	Ageing	Reason for unsettlement
Suzhou Dong Yi Precision Machinery Co., Ltd. (蘇州東昱精機有限公司)	Non related party	1,378,600.00	Within 1 year	Prepaid for materials
National Grid Jilin Province Electrify Co., Ltd. Siping City Suburb Electricity Distribution Sub-company (國網吉林省電力有限公司四平市城郊供電分公司)	Non related party	900,822.79	Within 1 year	Prepaid for electricity bills
Yuhuan Sheng Da Automobile & Motorcycle Components Industry Co., Ltd. (玉環盛大汽摩部件工業有限公司)	Non related party	509,163.39	Within 1 year	Prepaid for materials
Sinopec Zhejiang Hangzhou Sub-company (中國石油化工股份有限公司浙江杭州石油分公司)	Non related party	388,499.01	Within 1 year	Prepaid for gas bills
Kunshan Yong Xiang Precision Machinery Co., Ltd. (昆山勇翔精密機械有限公司)	Non related party	328,920.00	Within 1 year	Prepaid for materials
Sub-total		<u>3,506,005.19</u>		

(3) As at the end of the period, there was no prepayments to any shareholders holding 5% (inclusive) or more of the voting rights of the Company.

5. Other receivables

(1) Breakdown

1) Breakdown categories

Categories	Balance at the end of the period				Balance at the beginning of the period			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Individually significant amount with bad debt provision on individual basis	12,369,000.00	84.39			5,474,396.91	61.80		
Individually insignificant but significant based on credit risk characteristics	880,392.80	6.01			922,730.39	10.42		
Individually insignificant amount with bad debt provision on individual basis	1,407,241.89	9.60			2,461,110.58	27.78		
Total	<u>14,656,634.69</u>	<u>100.00</u>			<u>8,858,237.88</u>	<u>100.00</u>		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

5. Other receivables (continued)

(1) Breakdown (continued)

2) The aging analysis of accounts receivable is as follows:

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	(%)		Amount	(%)	
Within 1 year	10,276,241.89	70.11		5,185,507.49	58.54	
1-2 years	1,816,156.20	12.39		3,480,863.13	39.29	
2-3 years	2,501,200.00	17.07		97,400.00	1.10	
Over 3 years	63,036.60	0.43		94,467.26	1.07	
Sub-total	14,656,634.69	100.00		8,858,237.88	100.00	

3) Individually significant amount with bad debt provision on individual basis

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Other receivables of deposit from Yiwu Economic & technology Development Zone Administrative Committee and others	12,369,000.00			Individual impairment test showed no risk was expected of balance recover
Sub-total	12,369,000.00			

4) Provision for bad debts by groups

Group name	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	880,392.80		
Sub-total	880,392.80		

5) Individually insignificant amount with bad debt provision on individual basis at the end of the period

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Other receivables of individual imprest and others	1,407,241.89			Individual impairment test showed no risk was expected of balance recover
Sub-total	1,407,241.89			

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

5. Other receivables (continued)

(2) As at the end of the period, the Group had no accounts receivable from any shareholders holding 5% (inclusive) or more of the voting rights of the Company.

(3) The five largest other receivables

Name	Relationship with the Company	Carrying amount	Ageing	Percentage of total other receivables (%)	Remarks
Yiwu Economic & Technology Development Zone Administrative Committee (義烏經濟技術開發區管理委員會)	Non related party	8,869,000.00	Within 1 year	60.51	Deposit for the performance of contract
Jilin Tiedong Economic Development Zone Administrative Committee (吉林鐵東經濟開發區管理委員會)	Non related party	3,500,000.00	1-2 years, 2-3 years	23.88	Provisional borrowing
Siping City Dong Da Industry & trading Co., Ltd. (四平市東達工貿有限公司)	Non related party	650,000.00	1-2 years	4.43	Provisional borrowing
Zhang Xiao Gang (張曉剛)	Non related party	100,000.00	Within 1 year, 1-2 years	0.68	Imprest
Zheng Fu Ying (鄭甫英)	Non related party	80,000.00	Within 1 year	0.55	Imprest
Sub-total		<u>13,199,000.00</u>		<u>90.05</u>	

(4) As at the end of the period, there were no other receivables from any related party.

6. Inventories

(1) Breakdown

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Raw materials	70,044,657.26		70,044,657.26	55,620,707.37		55,620,707.37
Work-in-progress	30,926,489.81		30,926,489.81	20,626,741.37		20,626,741.37
Finished goods	80,389,267.97	964,857.80	79,424,410.17	59,164,082.89	426,788.15	58,737,294.74
Low-value consumables	510,905.49		510,905.49	1,482,871.60		1,482,871.60
Total	<u>181,871,320.53</u>	<u>964,857.80</u>	<u>180,906,462.73</u>	<u>136,894,403.23</u>	<u>426,788.15</u>	<u>136,467,615.08</u>

(2) Provision

1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
			Transfer (Note) Reversal	
Finished goods	426,788.15	964,857.80	426,788.15	964,857.80
Sub-total	<u>426,788.15</u>	<u>964,857.80</u>	<u>426,788.15</u>	<u>964,857.80</u>

(Note): Move away from provision due to the sales of inventories during the period.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

6. Inventories (continued)

(2) Provision (continued)

- 2) Description of the basis of and reasons for provision and reversal of provision for inventory obsolescence during the period as well as the proportion of written back in the closing balance of inventory of an item during the period

Item	Basis of provision for inventory obsolescence	Reasons for reversal of provision for inventory obsolescence during the period	Proportion of written back in the closing balance of inventory of an item during the period (%)
Finished goods	Stated at the lower of cost and net realizable value		

7. Non-current assets classified as held for sale and assets of disposal groups classified as held for sale

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term equity investments held for sale (Note)	10,467,600.00	
Subtotal	10,467,600.00	

(Note): Pursuant to a resolution of an extraordinary board meeting of the Company held on 17 May 2012, the Company undertook to complete its acquisition of 90% equity interest in Changchun Shili Automotive Brake Parts Co., Ltd. held by Zhejiang Shibao Holding Group Co., Ltd. within six months after the initial public offering and listing of the A Shares. During the period, the Company acquired the 90% equity interest in Changchun Shili Automotive Brake Parts Co., Ltd. held by Zhejiang Shibao Holding Group Co., Ltd. at a price of RMB10,467,600. This company has completed the business registration modification on 10 July 2013.

In the tenth meeting of the fourth Board held on 9 October 2013, the Company approved the Equity Transfer Agreement entered into between the Company and Changchun Mengjia Automotive Parts Company Ltd., pursuant to which the Company transferred its 90% equity interest in Changchun Shili Automotive Brake Parts Co., Ltd. to Changchun Mengjia Automotive Parts Company Ltd. at a price of RMB10,467,600. This company has completed the business registration modification on 14 February 2014.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

8. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax recoverable (Note)	18,073,492.79	
Prepaid expenses	609,048.24	1,224,181.63
Financial products (available-for-sale financial assets)		4,000,000.00
Total	18,682,541.03	5,224,181.63

(Note): Pursuant to the Ministry of Finance's circular [2012] No. 13, the Company and its subsidiaries have stated their respective balances of value added tax recoverable at the end of the period as other current assets. All balances have been stated as tax payable in the last period.

9. Long-term equity investments

Investees	Accounting method	Investment cost	Balance at the beginning of the period	Movement	Balance at the end of the period
Wuhu Sterling Steering System Co., Ltd.	Cost method	22,609,936.00	9,376,207.19	(9,376,207.19)	
Total		22,609,936.00	9,376,207.19	(9,376,207.19)	

Investees	Share-holding (%)	Voting right (%)	Explanation of different between shareholding and voting right	Impairment provision	Impairment provision made during the period	Cash dividend for the period
Wuhu Sterling Steering System Co., Ltd.	57.89	57.89				
Total						

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

10. Fixed assets

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period (Note)	Decrease during the period	Balance at the end of the period
1) Sub-total of cost	509,310,824.29	151,667,499.09	8,370,388.37	652,607,935.01
Buildings and structures	169,936,530.39	17,857,488.77		187,794,019.16
Equipment	310,543,114.63	124,059,462.61	7,199,460.45	427,403,116.79
Transportation vehicles	19,620,593.91	4,129,347.17	1,128,490.00	22,621,451.08
Office equipment and others	9,210,585.36	5,621,200.54	42,437.92	14,789,347.98
		Transfer during the period	Provision during the period	
2) Sub-total of accumulated depreciation	157,057,963.79	20,779,058.12	41,128,627.58	215,514,091.64
Buildings and structures	28,004,573.27	2,655,158.80	5,181,238.97	35,840,971.04
Equipment	111,938,633.61	16,485,715.76	31,483,765.67	157,205,058.52
Transportation vehicles	11,474,356.02	247,079.81	2,958,812.22	13,972,062.74
Office equipment and others	5,640,400.89	1,391,103.75	1,504,810.72	8,495,999.34
3) Sub-total of net booked value	352,252,860.50			437,093,843.37
Buildings and structures	141,931,957.12			151,953,048.12
Equipment	198,604,481.02			270,198,058.27
Transportation vehicles	8,146,237.89			8,649,388.34
Office equipment and others	3,570,184.47			6,293,348.64
		Transfer during the period	Provision during the period	
4) Sub-total of provision		1,071,242.00		1,071,242.00
Buildings and structures		825,717.39		825,717.39
Equipment		245,524.61		245,524.61
Transportation vehicles				
Office equipment and others				
5) Total of book value	352,252,860.50			436,022,601.37
Buildings and structures	141,931,957.12			151,127,330.73
Equipment	198,604,481.02			269,952,533.66
Transportation vehicles	8,146,237.89			8,649,388.34
Office equipment and others	3,570,184.47			6,293,348.64

(Note): After the acquisitions of Wuhu Sterling Steering System Co., Ltd. and Erdos Sterling Steering System Co., Ltd., additions to the consolidated financial statements included fixed assets with a carrying value of RMB66,447,416.03 therefrom as recorded on the acquisition date. The accumulated depreciation was RMB20,779,058.12. The provision of impairment was RMB1,071,242.00.

During the reporting period, amount of depreciation was RMB41,128,627.58.

During the reporting period, the carrying value of RMB68,304,430.59 was transferred from construction in progress to fixed assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

10. Fixed assets (continued)

- (2) As at 31 December 2013, no fixed assets had not obtained ownership certificates.
- (3) Buildings and constructions with a carrying value of RMB5,899,575.10, as included in fixed assets at the end of the period, has been pledged as security for a loan granted to Wuhu Sterling Steering System Co., Ltd..

11. Construction in progress

(1) Breakdown

Project name	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
The precious casting and processing of automotive components project	24,014,211.73		24,014,211.73	43,554,745.47		43,554,745.47
The increase of production of power automotive steering gears project	15,544,374.31		15,544,374.31	26,101,100.13		26,101,100.13
Capacity expansion project of Hangzhou New Shibao	9,568,381.01		9,568,381.01	21,193,139.37		21,193,139.37
The research and development, examination and inspection and trial production centre of automotive steering gear system project	111,538.46		111,538.46	1,657,272.44		1,657,272.44
Other sundry projects	988,401.79		988,401.79	355,576.11		355,576.11
Total	50,226,907.30		50,226,907.30	92,861,833.52		92,861,833.52

(2) Movements

Project name	Budget (RMB0,000)	Balance at the beginning of the period	Addition during the period (Note)	Transfer to fixed assets	Other decrease	Percentage of invested amount to budget (%)
The precious casting and processing of automotive components project	235,364.10	43,554,745.47	1,878,094.59	21,418,628.33		14.06
The increase of production of power automotive steering gears project	181,234.70	26,101,100.13	14,897,022.15	25,453,747.97		40.60
Capacity expansion project of Hangzhou New Shibao		21,193,139.37	5,191,746.75	16,816,505.11		
The research and development, examination and inspection and trial production centre of automotive steering gear system project	45,000.00	1,657,272.44	360,349.57	1,906,083.55		12.88
Other sundry projects		355,576.11	3,342,291.31	2,709,465.63		
Total		92,861,833.52	25,669,504.37	68,304,430.59		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

11. Construction in progress (continued)

(2) Movements (continued)

Project name	Construction progress (%)	Accumulated amount of capitalized interests	Amount of capitalized interests during the period	Interest rate of capitalized interests during the period (%)	Source of fund	Balance at the end of the period
The precious casting and processing of automotive components project	14.06	2,743,576.20	1,237,552.77	7.78%	Internal fund, bank loans	24,014,211.73
The increase of production of power automotive steering gears project	40.60	2,566,213.05	1,285,503.72	6.06%	Internal fund, bank loans, proceeds	15,544,374.31
Capacity expansion project of Hangzhou New Shibao					Internal fund	9,568,381.01
The research and development, examination and inspection and trial production centre of automotive steering gear system project	12.88				Internal fund	111,538.46
Other sundry projects					Internal fund	988,401.79
Total		5,309,789.25	2,523,056.49			50,226,907.30

(3) Description of construction progress of major projects

Project name	Construction progress	Remarks
The precious casting and processing of automotive components project	Partly has been settled and transferred to fixed assets, others are in progress installation and testing.	
The increase of production of power automotive steering gears project	Partly has been settled and transferred to fixed assets, others are in progress installation and testing.	
Capacity expansion project of Hangzhou New Shibao	Partly has been settled and transferred to fixed assets, others are in progress installation and testing.	

(Note): After the acquisitions of Wuhu Sterling Steering System Co., Ltd., additions to the consolidated financial statements included construction in progress with a carrying value of RMB251,727.79 therefrom as recorded on the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

12. Intangible assets

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period (Note)	Decrease during the period	Balance at the end of the period
1) Sub-total of cost	85,217,720.04	51,523,192.76		136,740,912.80
Land use right	56,536,297.00	27,825,993.09		84,362,290.09
Patented technology	1,281,666.67			1,281,666.67
Non-patented technology	25,963,095.33	22,733,276.79		48,696,372.12
Software	1,436,661.04	963,922.88		2,400,583.92
2) Sub-total of accumulated amortization	14,938,797.47	10,695,193.39		25,633,990.86
Land use right	8,455,127.63	2,996,741.63		11,451,869.26
Patented technology	277,694.38	128,166.65		405,861.03
Non-patented technology	5,647,774.68	7,228,608.29		12,876,382.97
Software	558,200.78	341,676.82		899,877.60
3) Sub-total of net value	70,278,922.57			111,106,921.94
Land use right	48,081,169.37			72,910,420.83
Patented technology	1,003,972.29			875,805.64
Non-patented technology	20,315,320.65			35,819,989.15
Software	878,460.26			1,500,706.32
4) Total of book value	70,278,922.57			111,106,921.94
Land use right	48,081,169.37			72,910,420.83
Patented technology	1,003,972.29			875,805.64
Non-patented technology	20,315,320.65			35,819,989.15
Software	878,460.26			1,500,706.32

(Note): After the acquisitions of Wuhu Sterling Steering System Co., Ltd. and Erdos Sterling Steering System Co., Ltd., additions to the consolidated financial statements included intangible assets with a carrying value of RMB38,426,242.42 therefrom as recorded on the acquisition date. The accumulated amortization was RMB2,579,201.29.

During the reporting period, amount of amortization was RMB8,115,992.10.

(2) Others

- 1) Land use rights with a carrying value of RMB7,114,530.58, as included in intangible assets at the end of the period, has been pledged as security for a loan granted to Wuhu Sterling Steering System Co., Ltd..
- 2) Description on valuer and assessment approach of recording an individual intangible asset exceeding RMB1 million according to its appraised value during the reporting period.

During this period, all identifiable assets and liabilities acquired under business combination, an acquisition of Wuhu Sterling Steering System Co., Ltd. were measured at fair value at the date of acquisition. The fair value of land use rights was RMB26,680,038.00 and that of relevant on-patented technology of electric power steering system was RMB10,483,432.02. Fair values of the above assets were recognized in accordance with the appraised values prepared on 31 October 2012, the record date. Such values have been assessed by Wuhu Zhongtian Asset Appraisal Limited, which has issued an Asset Appraisal Report (Zhong Tian Ping Bao Zi (2012) No. 0126) in this respect.

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

13. Goodwill

(1) Movement of goodwill

Name of investee or item generating goodwill	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Impairment provision at the end of the period
Wuhu Sterling		4,694,482.34		4,694,482.34	
Total		4,694,482.34		4,694,482.34	

During this period, the Company has completed progressively the acquisition of Wuhu Sterling Steering System Co., Ltd. without involving entities under common control. The difference of RMB4,694,482.34 between the acquisition cost and the fair value of identifiable assets so acquired has been recognized on the acquisition date as goodwill.

(2) Test and provision for impairment of goodwill

The carrying amount of goodwill acquired in a business combination was allocated to each of the related asset groups from the acquisition date on a reasonable basis, and the Company has completed impairment test on the related asset groups, including goodwill, and has found no indication that the goodwill related asset groups need impairment.

14. Deferred income tax assets and deferred income tax liabilities

(1) Recognized deferred income tax assets and deferred income tax liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Deferred income tax assets		
Provision of impairment of assets	217,936.11	169,961.39
Warranty expenses	559,794.26	481,104.96
Deductible loss	3,877,330.69	2,889,136.33
Total	4,655,061.06	3,540,202.68
Deferred income tax liabilities		
Adjustment to fair value of the business combination not under the common control	9,104,181.29	1,505,958.33
Total	9,104,181.29	1,505,958.33

(2) Unrecognized deferred income tax assets

Item	Balance at the end of the period	Balance at the beginning of the period
Deductible loss	49,472,984.93	29,970,127.62

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

14. Deferred income tax assets and deferred income tax liabilities (continued)

(3) *Taxable differences and deductible difference*

Item	Amount
Deductible difference	
Provision of impairment of assets	1,257,588.12
Warranty expenses	3,731,961.72
Deductible loss	15,509,322.75
Sub-total	20,498,872.59
Taxable differences	
Adjustment to fair value of the business combination not under the common control (Note)	36,416,725.16
Sub-total	36,416,725.16

(Note): During this period, value of taxable temporary differences incurred by the fair value adjustment in respect of all identifiable assets and liabilities which the Company acquired through progressive acquisition of Wuhu Sterling Steering System Co., Ltd. without involving entities under common control was RMB33,123,538.31. During this period, taxable temporary differences in respect of written back of amortized fair value was RMB1,961,646.48. For the year ended 31 December 2013, taxable temporary differences incurred by fair value adjustment in this respect was RMB31,161,891.83.

The remaining balance was incurred by the fair value adjustment after the business combination, without involving entities under common control, with Beijing Autonics Technology Co., Ltd. in the previous year.

15. Other non-current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Prepaid for purchase of long term assets	16,743,120.05	14,255,150.05
Deposit to fulfill the contract	6,000,000.00	
Total	22,743,120.05	14,255,150.05

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

16. Provision for impairment of assets

Item	Balance at the beginning of the period	Provision during the period (Note)	Decrease during the period		Balance at the end of the period
			Reversal	Transfer	
Bad debts provision	874,621.28	645,032.02	262,065.18		1,257,588.12
Provision for decline in price of inventories	426,788.15	964,857.80		426,788.15	964,857.80
Provision for impairment of fixed assets		1,071,242.00			1,071,242.00
Total	1,301,409.43	2,681,131.82	262,065.18	426,788.15	3,293,687.92

(Note): After the acquisitions of Wuhu Sterling Steering System Co., Ltd., additions to the consolidated financial statements included provision for impairment of fixed assets of RMB1,071,242.00 therefrom as recorded on the acquisition date.

17. Short-term loans

Item	Balance at the end of the period	Balance at the beginning of the period
Guaranteed loans	199,000,000.00	126,500,000.00
Credit loans		65,000,000.00
Pledged loans	18,750,000.00	
Secured loans	17,000,000.00	
Total	234,750,000.00	191,500,000.00

Annual interest rate of the above short-term loans is 5.60% to 6.56%.

18. Notes payable

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	39,542,300.00	19,849,353.45
Total	39,542,300.00	19,849,353.45

Amount of 39,542,300.00 will be due in the next account year.

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

19. Accounts payable

(1) Breakdown

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	173,184,660.46	153,244,102.50
1-2 years	4,718,684.74	7,262,957.72
2-3 years	2,730,595.95	1,128,525.17
Over 3 years	1,408,790.37	1,973,901.17
Total	<u>182,042,731.52</u>	<u>163,609,486.56</u>

(2) As at the end of the period, the Group had no accounts payable to any shareholders or other related parties holding 5% (inclusive) or more of the voting rights of the Company.

(3) As at the end of the period, no large accounts payable aged over 1 year.

20. Receipts in advance

(1) Breakdown

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	3,639,497.96	1,791,318.23
1-2 years	952,052.98	489,024.20
Total	<u>4,591,550.94</u>	<u>2,280,342.43</u>

(2) As at the end of the period, the Group had no advance from customers from any shareholders or other related parties holding 5% (inclusive) or more of the voting rights of the Company.

(3) As at the end of the period, no large advance from customers aged over 1 year.

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

21. Staff costs payable

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Salaries, bonus, allowances and subsidies	3,735,610.34	70,711,835.56	68,128,271.14	6,319,174.76
Staff welfare	6,145.00	6,635,058.45	6,641,203.45	
Social insurance		12,696,990.52	12,596,881.67	100,108.85
Including: Medical insurance		4,106,050.70	4,066,370.15	39,680.55
Basic pension insurance		6,518,816.12	6,470,809.50	48,006.62
Unemployment insurance		675,948.77	669,047.85	6,900.92
Work injury insurance		422,501.38	421,121.17	1,380.21
Maternity insurance		340,620.55	336,480.00	4,140.55
Housing funds		633,053.00	633,053.00	
Labour union funds and employee education funds	472,352.75	1,233,422.56	1,189,977.63	515,797.68
Total	4,214,108.09	91,277,307.09	88,556,333.89	6,935,081.29

As at the end of the period, the Company had no amount in arrears.

(2) Planning time and amount of payment of employee benefits payable

Balance of salaries, bonus, allowances and subsidies as at the end of the period is planned to be settled in 2014; balance of social insurance is to be paid in January 2014.

(3) Retirement benefits

According to the "Labor Law of the People's Republic of China" and the relevant laws and regulations, the Company and its subsidiaries shall contribute to basic pension insurance for their employees. Pension will be paid by authorities of social insurances to employees in accordance with the law when such employees reach the retirement age stipulated by the nation or leave the labour force for some reasons. The Company and its subsidiaries will then be no longer responsible for providing further retirement benefits to the employees.

22. Taxes payable

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax	1,686,464.54	(11,287,767.03)
Business tax		366,313.53
Corporate income tax	3,197,417.43	6,381,541.27
Withhold of individual income tax	167,954.46	151,291.58
Urban maintenance and construction tax	640,245.85	596,880.13
Others	750,218.81	1,220,468.34
Total	6,442,301.09	(2,571,272.18)

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

23. Interests payable

Item	Balance at the end of the period	Balance at the beginning of the period
Interests payable for short-term loans	424,168.26	336,550.17
Interests payable for long-term borrowings due in one year	9,386.67	
Interest of long-term borrowings with periodic payments of interest and return of principal at maturity	1,074,846.66	1,160,633.33
Total	1,508,401.59	1,497,183.50

24. Other payables

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Payable of temporary receipts	1,064,440.41	
Deposits	156,250.00	95,050.00
Labour service company management fees	301,696.91	122,149.32
Other	376,252.00	614,433.38
Total	1,898,639.32	831,632.70

(2) As at the end of the period, the Group had no other payables to any shareholders or other related parties holding 5% (inclusive) or more of the voting rights of the Company.

(3) As at the end of the period, no large other payables aged over 1 year.

25. Non-current liabilities due within one year

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term loans due within one year	13,050,400.00	13,790,400.00
Total	13,050,400.00	13,790,400.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

25. Non-current liabilities due within one year (continued)

(2) Long-term borrowings due within one year

1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Guaranteed loans	4,000,000.00 (Note 1)	13,000,000.00
Special funds for treasury bonds	250,400.00 (Note 2)	790,400.00
Other loans	8,800,000.00 (Note 3)	
Subtotal	13,050,400.00	13,790,400.00

(Note 1): These loans were borrowed from China Construction Bank, Siping Branch by Jilin Shibao Machinery Manufacturing Co., Ltd. These loans were guaranteed by related parties, Siping Steering Gear Co., Ltd.

(Note 2): These loans represented special funds for treasury bonds on key technological improvement projects of the State provided by the Ministry of Finance in Siping to a subsidiary, Siping Steering Gear Co., Ltd., for a term of fifteen years, with a grace period of four years. The balance at the beginning of the period were expected to be repaid in 2013, and RMB540,000.00 had actually been repaid in 2013, and the remaining RMB250,400.00 will be repaid according to the requirement of the Ministry of Finance in Siping.

(Note 3): These loans represented the capital loans from the Management Committee of the Tiedong Economic Development Zone in Siping for a subsidiary, Jilin Shibao Machinery Manufacturing Co., Ltd., to expand production.

2) The five largest long-term loans due within one year

Issuer	Date of commencement	Maturity date	Currency	Interest rate (%)	Amount at the end of the period	Amount at the beginning of the period
Jilin Tiedong Economic Development Zone Administrative Committee (吉林鐵東經濟開發區管理委員會)	2011/12/02	2014/12/01	RMB	Not contracted	8,800,000.00	
China Construction Bank Siping Sub-branch (中國建設銀行四平分行)	2011/05/20	2014/11/30	RMB	8.28	4,000,000.00	
China Construction Bank Siping Sub-branch (中國建設銀行四平分行)	2011/05/20	2013/11/30	RMB	8.28		13,000,000.00
Special fund for treasury bond	2002/01/01		RMB	5.00	250,400.00	790,400.00
Sub-total					13,050,400.00	13,790,400.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

26. Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Deferred income-assets related government grants (Note)	3,266,710.41	3,092,960.41
Accrued expenses	6,667,596.18	5,197,596.69
Total	9,934,306.59	8,290,557.10

(Note): For details of government grants to be amortized by and in relation to the assets of Jilin Shibao Machinery Manufacturing Co., Ltd. and Hangzhou New Shibao Electric Power Steering Co., Ltd., both are subsidiaries of the Company, during the period of use of relevant assets in the next year, please refer to the explanatory notes provided for other non-current liabilities.

27. Long-term borrowings

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Special funds for treasury bonds	2,830,000.00 (Note)	2,830,000.00
Guaranteed loans		4,000,000.00
Other loans		8,800,000.00
Total	2,830,000.00	15,630,000.00

(Note): These loans represented special funds for treasury bonds on key technological improvement projects of the State provided by the Ministry of Finance in Siping to a subsidiary, Siping Steering Gear Co., Ltd.

(2) The five largest long-term borrowings

Issuer	Date of commencement	Maturity date	Currency	Interest rate (%)	Amount at the end of the period	Amount at the beginning of the period
Special fund for treasury bond China Construction Bank Siping Sub-branch	2005/05/10	2020/12/31	RMB	5.00	2,830,000.00	2,830,000.00
(中國建設銀行四平分行) Jilin Tiedong Economic Development Zone Administrative Committee	2011/05/20	2014/11/30	RMB	8.28		4,000,000.00
(吉林鐵東經濟開發區管理 委員會)	2011/12/02	2014/12/01	RMB	Not contracted		8,800,000.00
Sub-total					2,830,000.00	15,630,000.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

27. Long-term borrowings (continued)

(3) Analysis of long-term borrowings by maturity date

Item	Balance at the end of the period	Balance at the beginning of the period
Current or within 1 year	13,050,400.00	13,790,400.00
Over 1 year but within 2 years		12,800,000.00
Over 5 years	2,830,000.00	2,830,000.00
Total	15,880,400.00	29,420,400.00

28. Other non-current liabilities

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Deferred income-assets related government grants	26,093,228.66	27,984,418.23
Total	26,093,228.66	27,984,418.23

(2) Breakdown of government grants

Item	Balance at the beginning of the period	Addition of grants during the period	Amount included to non-operating income during the period	Other movement	Balance at the end of the period	Assets related/ income related
Special funds for adjustment and improvement project for traditional industry bases including the Northeast Area	26,232,500.00		2,990,000.00		23,242,500.00	Assets related
Subsidy funds for the precious casting and processing of automotive components project	4,844,878.64		102,960.40		4,741,918.24	Assets related
Special funds for establishment of a platform for public services provided in foreign trading		1,390,000.00	14,479.17		1,375,520.83	Assets related
Sub-total	31,077,378.64	1,390,000.00	3,107,439.57		29,359,939.07	
Include: transferred to other current liabilities	3,092,960.41				3,266,710.41	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

29. Share capital

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Total shares	277,657,855.00			277,657,855.00
Shares with selling restrictions	175,943,855.00			175,943,855.00
Shares held by domestic legal person	165,387,223.00			165,387,223.00
Shares held by domestic natural person	10,556,632.00			10,556,632.00
Shares without selling restrictions	101,714,000.00			101,714,000.00
A Shares	15,000,000.00			15,000,000.00
H Shares	86,714,000.00			86,714,000.00

30. Capital reserve

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Share premium	35,854,815.68			35,854,815.68
Other capital reserve	6,444,389.04			6,444,389.04
Total	42,299,204.72			42,299,204.72

31. Surplus reserve

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory reserve funds	107,210,809.82	6,688,455.90		113,899,265.72
Total	107,210,809.82	6,688,455.90		113,899,265.72

(2) Other description

According to the Company's articles of association, the Company and Hangzhou Shibao, its controlling subsidiary both transferred 10% of their recorded net profit as statutory reserve funds respectively, the total amount was 6,688,455.90.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the Consolidated Balance Sheet (continued)

32. Retained earnings

Item	Amount	% of appropriation/ distribution
Retained earnings at end of last year before adjustment	289,773,896.98	
Total amount of adjustment (Add+, Less-)		
Retained earnings at beginning of the year after adjustment	289,773,896.98	
Add: Net profit attributable to equity holders of the Parent	48,823,967.72	
		the Company and Hangzhou Shibao, its controlling subsidiary both transferred 10% of their recorded net profit
Less: Transfer to statutory reserve funds	6,688,455.90	
Dividends payable	22,212,628.40	(Note)
Retained earnings at the end of the period	309,696,780.40	

(Note): Pursuant to the resolution passed at the Company's 2012 annual general meeting, a cash dividend of RMB0.80 (tax inclusive) per 10 shares based on 277,657,855 shares in total as at the end of 2012 was paid to all shareholders. The total cash dividend was RMB22,212,628.40 (tax inclusive).

(2) Notes to the Consolidated Income Statement

1. Revenue/cost of sales

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Revenue from main business	670,302,565.51	544,845,899.31
Revenue from other business	4,293,734.19	3,538,776.94
Cost of sales	496,308,510.32	379,802,713.65

(2) Revenue from main business/Cost of sales for main business (by sectors)

Sector	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Automobile components and spare parts manufacture	670,302,565.51	495,362,310.17	544,845,899.31	379,244,389.43
Subtotal	670,302,565.51	495,362,310.17	544,845,899.31	379,244,389.43

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement (continued)

1. Revenue/cost of sales (continued)

(3) Revenue from main business/Cost of sales for main business (by products)

Product	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Power rack-and-pinion steering gears	284,178,071.80	201,409,197.64	154,490,019.42	101,843,634.36
Power recirculating ball steering gears and its components	205,837,495.85	157,848,080.21	213,423,648.48	151,122,187.72
Steering knuckles	97,826,680.01	62,124,606.62	74,888,408.24	45,497,404.35
Spare parts and others	82,460,317.85	73,980,425.70	102,043,823.17	80,781,163.00
Subtotal	<u>670,302,565.51</u>	<u>495,362,310.17</u>	<u>544,845,899.31</u>	<u>379,244,389.43</u>

(4) Revenue from the five largest customers

Name	Revenue	Proportion to revenue (%)
FAW-Car Co., Ltd. (一汽轎車股份有限公司)	150,757,743.63	22.35
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	80,692,932.98	11.96
SAZEH GOSTAR SAIPA CO.	71,355,292.68	10.58
Cherry Automobile Co., Ltd. (奇瑞汽車股份有限公司)	51,932,215.24	7.70
Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司)	51,686,567.78	7.66
Sub-total	<u>406,424,752.31</u>	<u>60.25</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement (continued)

2. Business taxes and surcharges

Item	Balance for the current period	Balance for the corresponding period	
		last year	Tax rate
Business tax	24,367.50	30,304.49	Refer to note to the financial statements, taxation
Urban maintenance and construction tax	2,030,483.53	1,958,636.72	
Education surcharge	886,761.34	862,868.46	
Local education surcharge	591,109.74	575,245.64	
Total	3,532,722.11	3,427,055.31	

3. Selling expenses

Item	Balance for the current period	Balance for the corresponding period	
		last year	
Transportation cost	15,915,580.34	12,266,563.88	
Warranty fee	12,804,350.80	5,997,980.67	
Wages, welfare and bonuses	6,062,354.20	5,885,182.91	
Travelling expenses	5,080,231.95	3,727,388.24	
Agent fee	2,655,369.69		
Entertainment charge	2,350,528.39	1,675,782.29	
Depreciation of fixed assets	502,746.67	422,577.51	
Others	4,697,515.23	3,187,813.57	
Total	50,068,677.27	33,163,289.07	

4. General and administrative expenses

Item	Balance for the current period	Balance for the corresponding period	
		last year	
Wages, welfare and bonuses	23,573,636.42	20,905,578.42	
Research and development expenses	25,503,480.73	16,292,793.29	
Office cost	6,568,019.06	4,931,987.67	
Professional service fee	4,389,807.86	4,179,706.83	
Depreciation of fixed assets	4,656,672.56	4,231,054.40	
Amortization of intangible assets	4,082,414.36	3,925,136.65	
Other taxation	4,979,972.08	3,545,068.97	
Travelling expenses	2,354,200.69	1,735,350.92	
Entertainment charge	1,126,650.44	1,087,109.84	
Other	1,696,041.54	1,154,568.06	
Total	78,930,895.74	61,988,355.05	

The auditor's fee for 2013 was RMB600,000.00 (2012: RMB1,000,000.00).

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement (continued)

5. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	11,896,030.11	9,120,319.28
Including: Interests of other loans fully within 5 years	11,754,530.11	8,978,819.28
Interests of other loans not fully repayable within 5 years	141,500.00	141,500.00
Interest income	(651,657.51)	(631,257.41)
Other	220,262.23	80,320.90
Including: Net exchange gains and losses	(247,150.26)	70,794.80
Total	11,464,634.83	8,569,382.77

6. Assets impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debts losses	382,966.84	(1,413,112.92)
Provision for inventories losses	964,857.80	(568,706.04)
Total	1,347,824.64	(1,981,818.96)

7. Investment gains

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from long-term equity investments under equity method of accounting	(424,431.25)	(2,320,296.63)
Gains from bank short-term products	14,739.73	
Others (Note)	11,078,565.05	
Total	10,668,873.53	(2,320,296.63)

(Note): During the period, the Company combined with Wuhu Sterling Steering System Co., Ltd. in phases through a business combination involving entities not under common control. The previously held equity interest prior to the date of the acquisition was re-measured at fair value and resulted in a gain which was recognized as investment gains.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement (continued)

7. Investment gains (continued)

(2) Investment gains from long-term equity investments under equity method of accounting

Investee	Balance for the current period	Balance for the corresponding period last year	Reasons of increase/decrease as compared with the previous period
Wuhu Sterling Steering System Co., Ltd.	(424,431.25)	(2,320,296.63)	The investee has been consolidated in the Company's financial statements from May during the period.
Subtotal	<u>(424,431.25)</u>	<u>(2,320,296.63)</u>	

(3) Description of major restriction on the remittance of investment gains

There was no major restriction on the remittance of investment gains by the Company.

8. Non-operating income

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Total gains from disposal of non-current assets	159,924.09	9,233,699.03	159,924.09
Government grants	7,730,737.71	9,950,660.37	7,730,737.71
Others	<u>321,690.35</u>	<u>1,715,259.47</u>	<u>321,690.35</u>
Total	<u>8,212,352.15</u>	<u>20,899,618.87</u>	<u>8,212,352.15</u>

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement (continued)

8. Non-operating income (continued)

(2) Government grants

Item	Balance for the current period	Balance for the corresponding period last year	Asset related/revenue related	Description
Special funds for adjustment and improvement project for traditional industry bases including the Northeast Area	2,990,000.00	2,595,000.00	Asset related	(Note 1)
Subsidy funds for the precious casting and processing of automotive components project	102,960.40	122,960.37	Asset related	(Note 2)
Special funds for establishment of a platform for public services provided in foreign trading	14,479.17		Asset related	(Note 3)
Tax rebate	809,997.78		Revenue related	(Note 4)
Subsidy funds for business projects initiated by personnel with by overseas education background	1,000,000.00		Revenue related	(Note 5)
Incentive funds in respect of land use tax in cities and towns	677,800.00		Revenue related	(Note 6)
Incentive funds for enterprises' investment in R&D	406,900.00		Revenue related	(Note 7)
Funds for technological innovation	300,000.00		Revenue related	(Note 8)
Subsidy funds for enterprise technological improvement projects	250,000.00		Revenue related	(Note 9)
Subsidy funds for employment and promoting employment	217,487.00		Revenue related	(Note 10)
Special funds for talent scheme in Qianjiang	200,000.00		Revenue related	(Note 11)
Subsidy funds for social insurance in relation to stabilizing employment	179,113.36		Revenue related	(Note 12)

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement (continued)

8. Non-operating income (continued)

(2) Government grants (continued)

Item	Balance for the current period	Balance for the corresponding period last year	Asset related/revenue related	Description
Incentive funds for project investment	178,800.00		Revenue related	(Note 13)
Subsidy funds for innovation	100,000.00		Revenue related	(Note 14)
Special funds for key industry development		3,452,000.00	Revenue related	(Note 15)
Incentive funds for IPO		3,000,000.00	Revenue related	(Note 16)
Special funds for the development of enterprises		600,000.00	Revenue related	(Note 17)
Incentive funds for famous products		100,000.00	Revenue related	(Note 18)
Others	303,200.00	80,700.00	Revenue related	
Sub-total	7,730,737.71	9,950,660.37		

(Note 1) “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》) (Fa Gai Ban Chan Ye (2010) No. 2684) (發改辦產業〔2010〕2684號) issued by National Development and Reform Commission (國家發展改革委員會)

(Note 2) “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 (四平鐵東經濟技術開發區管理委員會)

(Note 3) “Notice of Granting of Special Funds for Public Services Provided in Foreign Trading 2012” (《關於下達浙江省2012年度外貿公共服務平臺建設專項資金的通知》) (Hang Cai Qi (2013) No. 898) (杭財企〔2013〕898號) issued by Hangzhou Bureau of Finance and Hangzhou Foreign Trade and Economic Cooperation Bureau (杭州市財政局、杭州市對外貿易經濟合作局發)

(Note 4) Examined and approved by Development Zone Branch of District Tax Bureau, Hangzhou (杭州市地方稅務局開發區稅務分局)

(Note 5) “Notice of Granting of Subsidy Funds for Business Projects in Development Zone Initiated by Personnel with Overseas Education Background 2011” (《關於下達2011年度開發區留學人員創業項目資助的通知》) (Hang Jing Kai Gan Fa (2013) No. 253) (杭經開管發〔2013〕253號) issued by the Management Committee of Hangzhou Economic and Technological Development Zone (杭州經濟技術開發區管理委員會)

(Note 6) “Notice of the Publication of ‘Measures for Implementation of Incentive Fund Scheme in respect of Land Use Tax in Cities and Towns within Wuhu Economic and Technology Development Zone’” (《關於印發〈蕪湖經濟技術開發區城鎮土地使用稅獎勵實施辦法〉的通知》) (Kai Ban (2013) No. 201) (開辦〔2013〕201號) issued by Wuhu Economic and Technology Development Zone Administrative Committee (蕪湖經濟技術開發區管委會)

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement (continued)

8. Non-operating income (continued)

(2) Government grants (continued)

- (Note 7) "Notice of the publication of Enterprises being Awarded Incentive Funds for their Investment in R&D 2011" (《關於公佈2011年度企業研發投入獎勵名單的通知》) (Hang Jing Kai Gan Fa (2013) No. 43) (杭經開管發〔2013〕43號) issued by the Management Committee of Hangzhou Economic and Technological Development Zone (杭州經濟技術開發區管理委員會)
- (Note 8) "Notice of Granting of Funds for Technological Innovation in the Establishment of Innovative Enterprise under the Transformation Scheme of Technological Innovation and R&D in Jilin Province 2013" (《關於下達2013吉林省科技創新和科研成果轉化計畫創新型企業科技創新資金的通知》) (Ji Cai Jiao Zhi (2013) No. 695) (吉財教〔2013〕695號) issued by Science and Technology Department and Financial Department of Jilin Province (吉林省科技廳、財政廳)
- (Note 9) "Notice of Organization of and Application for Special Subsidy Funds in the Financial Year of 2013" (《關於組織申報2013年財政專項資金項目的通知》) (Wan Jing Xin Ji Gai (2013) No. 61) (皖經技〔2013〕61號) issued by Anhui Provincial Economy and Informatization Commission (安徽省經濟和資訊化委員)
- (Note 10) "Announcement of Matters in Relation to an Application for a Subsidy for Employment and Promoting Employment" (《關於申報穩崗補貼和促進就業補貼有關事項的公告》) issued by Human Resources and Social Security Bureau of Wuhu city (蕪湖市人力資源和社會保障局)
- (Note 11) In accordance with "Notice of Granting of Funds for Talent Scheme in Qianjiang 2013 by Zhejiang Province Science and Technology Bureau" (《浙江省科學技術廳關於下達2013年度省級錢江人才計畫項目的通知》) (Zhe Ke Fa Ji (2013) No. 127) (浙科發技〔2013〕127號) issued by Zhejiang Province Science and Technology Bureau
- (Note 12) "Notice of Granting of Subsidy Funds for Social Insurance in Relation to Stabilizing Employment in Hangzhou Economic and Technology Zone 2012" (《關於開展杭州經濟技術開發區2012年度穩定就業單位社會保險補貼工作的通知》) issued by Administrative Bureau for Employment of Hangzhou City (杭州市就業管理服務局)
- (Note 13) An Agreement signed by Wuhu Economic and Technology Development Zone Administrative Committee (蕪湖經濟技術開發區管委會) on 1 November 2004
- (Note 14) "Implementation Opinions of an Enhancement in the Promotion of a Continuous and Healthy Economic Development" (《關於促進經濟持續健康較快發展的實施意見》) (Wu Zheng (2013) No. 33) (蕪政〔2013〕33號) issued by the People's Government of Wuhu City
- (Note 15) "Notice of Fifth Granting of Development Funds for Key Industry in Hangzhou City 2011" (《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 Jin (2012) No. 235, Hang Jing Kai Cai (2012) No. 98) (杭經開經〔2012〕235號、杭經開財〔2012〕98號) issued by the Economic Development Bureau of Hangzhou Economic and Technological Development Zone (杭州經濟技術開發區經濟發展局) and Department of Finance of Hangzhou Economic and Technological Development Zone (杭州經濟技術開發區財政局)
- (Note 16) "Opinions on Further Promoting the IPO of enterprises" (《關於進一步推進企業上市工作的若干意見》) (Shi Wei (2010) No. 28) issued by the CPC Yiwu Municipal Committee and Yiwu Municipal People's Government
- (Note 17) "Notice of Granting of Special Funds for the Development of Automobile Industry in Jilin Province 2013" (《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) (吉財企指〔2010〕1244號) and "Notice of Granting of Development Funds for Small and Medium-sized Enterprises in Industries with Local Characteristics" (《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 Jilin Province Department of Finance
- (Note 18) "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 (吉林省名牌產品推進委員會)

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement (continued)

9. Non-operating expenses

Item	Balance for the current period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Loss on disposal of non-current assets	275,462.61	163,092.08	275,462.61
Including: Loss on disposal of fixed assets	275,462.61	163,092.08	275,462.61
Local water conservancy construction funds	561,037.94	357,387.35	
Others	231,572.92	1,978,020.17	231,572.92
Total	1,068,073.47	2,498,499.60	507,035.53

10. Income tax expenses

Item	Balance for the current period	Balance for the corresponding period last year
Current income tax calculated according to tax law and relevant provisions	7,024,609.80	12,808,929.79
Adjustment of deferred income tax	(1,797,519.99)	(2,207,387.54)
Total	5,227,089.81	10,601,542.25

No provision for Hong Kong profits tax has been made (2012: Nil) as the Company and its subsidiaries had no profits generated in or arising from Hong Kong in 2013.

11. Calculations of basic and diluted earnings per share

(1) Basic and diluted earnings per share

Profit for the reporting period	Earnings per share (RMB/share)			
	Basic earnings per share		Diluted earnings per share	
	Year of 2013	Year of 2012	Year of 2013	Year of 2012
Net profits attributable to the ordinary shareholders of the Company	0.18	0.27	0.18	0.27
Net profits after deducting non-recurring profit/loss attributable to the ordinary shareholders of the Company	0.11	0.21	0.11	0.21

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement (continued)

11. Calculations of basic and diluted earnings per share (continued)

(2) Calculations of basic earnings per share

Item	Number	Year of 2013
Net profits attributable to the ordinary shareholders of the Company	A	48,823,967.72
Non-recurring profit/loss	B	17,703,447.84
Net profits after deducting non-recurring profit/loss attributable to the ordinary shareholders of the Company	C=A-B	31,120,519.88
Total number of shares at beginning	D	277,657,855.00
Increase in number of shares due to transfer from reserves to capital or distribution of scrip dividend	E	
Increase in number of shares due to issuance of new shares or convertibles	F	
Number of months calculated from the month after increase in shares to end of reporting period	G	
Decrease in number of shares due to repurchase	H	
Number of months calculated from the month after decrease in shares to end of reporting period	I	
Reduction in number of shares during the reporting period	J	
Number of months in the reporting period	K	
Weighted average number of issued ordinary shares	$L=D+E+F \times G / K - H \times I / K - J$	277,657,855.00
Basic earnings per share	M=A/L	0.18
Basic earnings per share after deducting non-recurring profit/loss	N=C/L	0.11

(3) Calculations of diluted earnings per share are the same as the calculations of basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(3) Notes to the Consolidated Statement of Cash Flows

1. Cash received in relation to operating activities

Item	Balance for the current period
Recovery of deposits including banker's acceptances	4,682,509.77
Receipt of government Grants which are revenue related	3,813,300.36
Collection of current accounts	1,000,000.00
Interest income	651,657.51
Others	1,184,331.90
Total	11,331,799.54

2. Cash paid in relation to operating activities

Item	Balance for the current period
Cash paid as selling expenses	38,655,587.05
Cash paid as general and administrative expenses	15,435,180.58
Payment of deposits including banker's acceptances	8,340,703.35
Others	478,302.47
Total	62,909,773.45

3. Cash received in relation to investing activities

Item	Balance for the current period
Recovery of tender deposits	5,600,000.00
Redemption of financial products	4,000,000.00
Receipt of government Grants which are asset related	1,390,000.00
Total	10,990,000.00

4. Cash paid in relation to investing activities

Item	Balance for the current period
Cash paid as performance deposit for construction	8,869,000.00
Cash paid as performance deposit of contracts	6,000,000.00
Total	14,869,000.00

5. Cash received in relation to financing activities

Item	Balance for the current period
Receipt of provisional borrowings	69,200,000.00
Total	69,200,000.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(3) Notes to the Consolidated Statement of Cash Flows (continued)

6. Cash paid in relation to financing activities

Item	Balance for the current period
Repayment of provisional borrowings	69,200,000.00
Total	69,200,000.00

7. Supplemental information on the statement of cash flows

(1) Supplemental information on the statement of cash flows

Supplemental information	Balance for the current period	Balance for the corresponding period last year
(1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	45,529,097.19	68,894,979.75
Add: Provision for impairment to assets	1,347,824.64	(1,981,818.96)
Depreciation of fixed assets, oil and gas assets and production related biological materials	41,128,627.58	31,461,993.67
Amortization of intangible assets	8,115,992.10	4,212,537.85
Amortization of long-term deferred expenses		
Losses/(gains) on disposal of fixed assets, intangible assets and other long-term assets	115,538.52	(9,070,606.95)
Losses/(gains) on write-off of fixed assets		
Losses/(gains) on changes of fair value		
Finance expenses/(gains)	11,648,879.85	8,489,061.87
Investment losses/(gains)	(10,668,873.53)	2,320,296.63
Decrease/(increase) in deferred income tax assets	(1,114,858.38)	(2,015,137.54)
Increase/(decrease) in deferred income tax liabilities	(682,661.61)	(192,250.00)
Decrease/(increase) in inventories	(28,247,268.54)	(13,480,791.12)
Decrease/(increase) in operational receivables	(1,723,564.21)	(62,226,191.71)
Increase/(decrease) in operational payables	(7,343,069.00)	(8,209,774.33)
Others		
Net cash flows from operating activities	58,105,664.61	18,202,299.16
(2) Significant investment and financing activities not related to cash receipts and payments:		
Debts transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
(3) Net change in cash and cash equivalents:		
Cash at the end of the period	58,609,424.36	76,773,167.14
Less: Cash at the beginning of the period	76,773,167.14	40,711,980.73
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	(18,163,742.78)	36,061,186.41

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(3) Notes to the Consolidated Statement of Cash Flows (continued)

7. Supplemental information on the statement of cash flows (continued)

(2) Information on the acquisition/disposal of subsidiaries and other business entities during the period

Item	Balance for the current period	Balance for the corresponding period last year
(1) Information on the acquisition of subsidiaries and other business entities:		
Price of the acquisition of subsidiaries and other business entities	3,000,000.00	
Cash and cash equivalents paid for the acquisition of subsidiaries and other business entities	3,000,000.00	
Less: Cash and cash equivalents held by subsidiaries and other business entities	344,618.45	
Net cash paid for the acquisition of subsidiaries and other business entities	2,655,381.55	
The acquired subsidiaries: Net assets	44,621,679.20	
Current assets	66,185,919.05	
Non-current assets	81,371,034.31	
Current liabilities	94,654,389.59	
Non-current liabilities	8,280,884.57	

(3) Cash and cash equivalents

Item	Balance at end of the period	Balance at the beginning of the period
(1) Cash		
Including: Cash on hand	352,452.51	80,461.14
Bank deposit readily available	58,256,971.85	76,692,706.00
Other monetary fund readily available		
Central bank deposit readily available		
Interbank deposit		
Interbank offer		
(2) Cash equivalents		
Including: bond investment due in three months		
(3) Closing balance of cash and cash equivalents	58,609,424.36	76,773,167.14

Closing cash balance as shown in the statement of cash flows for the year 2013 was RMB58,609,424.36 and the closing balance of cash on hand and at bank as shown in the balance sheet as at 31 December 2013 was RMB66,950,127.71. The difference of RMB8,340,703.35 was other monetary funds unqualified as cash and cash equivalents and having been deducted from the closing cash balance of the statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Related parties

1. Parent company

Name	Relationship	Corporate type	Place of registration	Corporate representative	Business nature
Shibao Holding	The largest shareholder	Limited liability	Zhejiang Yiwu	Zhang Shi Zhong	Industrial investment

Name	Registered capital (RMB0,000)	Shareholding % in the Company	Voting % in the Company	Ultimate controlling parties	Organization code
Shibao Holding	5,000.00	59.57	59.57	Zhang Shi Quan and his family members, i.e. Zhang Bao Yi, Tang Hao Hang, Zhang Lan Jun and Zhang Shi Zhong	75193535-X

2. Details of the Company's subsidiaries are listed in business combination and consolidated financial statements of the notes to the financial statement.

(2) Related parties transactions

1. Purchase of goods and acceptance of services

Related party	Related party transaction	Pricing method and decision making procedures	Balance for the current period		Balance for the corresponding period last year	
			Amount	% to similar transaction amount	Amount	% to similar transaction amount
Wuhu Sterling (Note)	Purchase of goods	Market price	434,045.23	0.12	680,402.57	0.23

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(2) Related parties transactions (continued)

2. Sales of goods and provision of services

Related party	Related party transaction	Pricing method and decision making procedures	Balance for the current period		Balance for the corresponding period last year	
			Amount	% to similar transaction amount	Amount	% to similar transaction amount
Wuhu Sterling (Note)	Sales of goods	Market price	9,766,110.67	1.45	27,934,012.86	5.10

(Note): Transaction amount with such company between January and April 2013 is disclosed in the notes to the financial statement.

3. Guarantee with related parties

As at 31 December 2013, guarantee with related parties is as follows: (Unit: RMB0,000)

Guarantor	Secured party	Guaranteed amount	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fully fulfilled	Remarks
Shibao Holding	Hangzhou Shibao	6,000.00	2013.06.19 – 2013.12.17	2014.06.17 – 2014.11.20	No	Borrowing
Shibao Holding	Hangzhou Shibao	4,000.00	2013.09.16 – 2013.11.13	2014.09.16 – 2014.11.13	No	Borrowing
Zhang Shi Quan	Zhejiang Shibao	9,900.00	2013.08.30 – 2013.12.12	2014.08.25 – 2014.12.11	No	Borrowing

4. Funds from related parties

During the period, the Company's received funds of RMB69,200,000 from Shibao Holding. As at 31 December 2013, the Company has repaid in full.

5. Transfer of assets with related parties

Related party	Related party transaction	Type of related party transaction	Price determination principle of related party transaction	Balance for the current period		Balance for the corresponding period last year	
				Amount	% to similar transaction amount	Amount	% to similar transaction amount
Shibao Holding	Equity interest	Purchase	Negotiation	10,467,600.00	100.00		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(3) Account payable with related parties

Item	Related parties	Balance at the end of the period	Balance at the beginning of the period
Notes payable	Zhejiang Shibao (Note)	4,550,000.00	
	Hangzhou Shibao (Note)	3,159,286.84	
	Jilin Shibao (Note)	2,400,000.00	
	Hangzhou New Shibao (Note)	200,000.00	
Total		10,309,286.84	

(Note): Note payables are banker's acceptances issued by the controlling subsidiaries Hangzhou Shibao, Hangzhou New Shibao and Wuhu Sterling. Zhejiang Shibao, Hangzhou Shibao, Jilin Shibao and Hangzhou New Shibao, after received such banker's acceptances, have been endorsed to other parties.

(4) Remuneration/fee of key management

1. Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	2,109,939.25	2,125,150.50
Other key management	405,640.00	384,800.00
Total	2,515,579.25	2,509,950.50

2. Independent non-executive Directors

Name	Balance for the current period	Balance for the corresponding period last year
Chau Kam Wing, Donald	120,000.00	120,000.00
Zhao Chun Zhi	30,000.00	30,000.00
Zhang Hong Zhi	30,000.00	30,000.00
Li Zi Biao	30,000.00	26,666.67
Chen Guo Feng		3,333.33
Total	210,000.00	210,000.00

3. Executive Directors, Non-executive Directors and Chief Executive

Name	Balance for the current period			Balance for the corresponding period last year		
	Salaries, bonus, allowances and subsidies	Social insurance	Total	Salaries, bonus, allowances and subsidies	Social insurance	Total
Zhang Shi Quan	400,000.00		400,000.00	400,000.00		400,000.00
Tang Hao Han	300,000.00	11,400.00	311,400.00	300,000.00	13,200.00	313,200.00
Zhang Bao Yi	300,000.00	12,859.20	312,859.20	300,000.00	10,785.60	310,785.60
Zhu Jie Rong	180,000.00		180,000.00	240,000.00		240,000.00
Zhang Lan Jun	222,000.00	15,757.37	237,757.37	222,000.00	15,007.02	237,007.02
Zhang Shi Zhong	96,000.00	12,859.20	108,859.20	80,000.00	10,785.60	90,785.60
Lou Run Zheng	30,000.00		30,000.00	30,000.00		30,000.00
Total	1,528,000.00	52,875.77	1,580,875.77	1,572,000.00	49,778.22	1,621,778.22

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(4) Remuneration/fee of key management (continued)

4. Supervisors

Name	Balance for the current period			Balance for the corresponding period last year		
	Salaries, bonus, allowances and subsidies	Social insurance	Total	Salaries, bonus, allowances and subsidies	Social insurance	Total
Wu Lang Ping	111,819.88	11,289.60	123,109.48	98,586.28	10,752.00	109,338.28
Du Min	117,000.00		117,000.00	108,000.00		108,000.00
Shen Song Sheng	30,954.00		30,954.00	28,034.00		28,034.00
Yang Di Shan	24,000.00		24,000.00	24,000.00		24,000.00
Wang Kui Quan	24,000.00		24,000.00	24,000.00		24,000.00
Total	307,773.88	11,289.60	319,063.48	282,620.28	10,752.00	293,372.28

5. Remuneration of five highest paid employees

During the year, the five highest paid employees include four (2012: four) Directors and details of their remunerations are set out in note 6.(4)3 to the financial statements. The remuneration of the remaining one (2012: one) employee who is not a director is as follows:

Item	Balance for the current period	Balance for the corresponding period last year
Salaries, allowances and non-cash benefits		
Contribution to pension scheme	528,085.80	528,085.80
Total	528,085.80	528,085.80

7. COMMITMENTS

(1) Lease arrangement

According to the lease contract signed with lessor, the group had the minimum lease payments under non-cancellable operating leases as follows:

Item	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	192,546.00	142,971.50
1-2 years	192,546.00	–
Total	385,092.00	142,971.50

(2) Major commitments

Item	Balance at the end of the period	Balance at the beginning of the period
Material contracts in relation to acquisition of assets contracted but not recognized	46,551,479.10	30,682,636.33

The Company entered into Land Use Rights Transfer Contract with the Land Bureau of Yiwu City on 18 December 2013, pursuant to which the a parcel of land, with an area of approximately 53,320.69 sq.m., located in District A-01 in Chong Shan, a technological development zone of Yiwu city, was intended to be transferred to the Company at a total consideration of RMB29,592,983.00. As at 31 December 2013, the Company has paid RMB6,000,000.00 as performance deposit of the contract and RMB8,869,000.00 as performance deposit for the related construction project.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

8. POST BALANCE SHEET DATE EVENTS

- (1) Pursuant to the approval in the thirteenth meeting of the fourth Board of the Company held on 27 January 2014, the Company proposed to place up to (inclusive) 38.20 million of A Shares to not more than 10 placees. The aggregate proceeds raised in this issuance is estimated to be up to RMB708 million (inclusive). The actual amount to be issued will be determined by negotiation between the Board of the Company and the sponsor (the principal underwriter) pursuant to an authorization to be sought in a general meeting.
- (2) Pursuant to the profit distribution proposal passed in the fifteenth meeting of the fourth Board of the Company held on 21 March 2014, based on the total capital of 277,657,855 shares, a cash dividend of RMB0.80 (before tax) per 10 shares will be distributed to all shareholders. The aforementioned profit distribution proposal is subject to approval in the annual general meeting. Subject to the approval at the general meeting, liability will be accordingly recognized by the Company.

9. OTHER IMPORTANT MATTERS

(1) Financial instruments and risk management

1. Details of financial instruments

Item	Balance at the end of the period	Balance at the beginning of the period
Financial assets	468,004,359.68	490,488,534.23
Including: Cash on hand and at bank	66,950,127.71	78,543,676.91
Notes receivable	107,726,195.93	117,298,613.04
Accounts receivable	278,671,401.35	285,788,006.40
Other receivables	14,656,634.69	8,858,237.88
Financial liabilities	482,557,553.72	410,922,164.30
Including: Bank borrowings	250,630,400.00	220,920,400.00
Notes payable	39,542,300.00	19,849,353.45
Accounts payable	182,042,731.52	163,609,486.56
Employee benefits payable	6,935,081.29	4,214,108.09
Interests payable	1,508,401.59	1,497,183.50
Other payables	1,898,639.32	831,632.70

2. Objectives and policies of financial risk management

With an objective of achieving a balance between risk and revenue through risk management, the Company minimizes the negative impact of risk to its operating results in order to maximize the interest of its Shareholders and other equity investors. According to the objective set for risk management, the basic strategies of the Company's risk management includes an identification and analysis of the Company's exposures to risk, establishment of an appropriate tolerance thresholds and operation of risk management. In addition, the Company supervises various risks on a timely and reliable manner in order to manage and monitor the exposures to ensure they are confined in a controlled scope.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

9. OTHER IMPORTANT MATTERS (continued)

(1) Financial instruments and risk management (continued)

2. Objectives and policies of financial risk management (continued)

(1) Credit risk

Credit risk is the risk of financial losses arising from default of the counterparty.

Credit risk of the Company mainly relates to receivables. The Company trades only with recognized and creditworthy third parties. It is the Company'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.

Since the Company 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 2013, the Group had specific concentration of credit risk as 53.59% (31 December 2012: 52.86%) of the Company'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:

Item	Neither past due nor impaired	Balance at the end of the period Past due but not impaired			Total
		Within 1 year	1-2 years	Over 2 years	
Cash on hand and at bank	66,950,127.71				66,950,127.71
Notes receivable	107,726,195.93				107,726,195.93
Accounts receivable	258,591,780.21	12,367,681.62	5,567,635.15	2,144,304.37	278,671,401.35
Other receivables	14,656,634.69				14,656,634.69
Total	447,924,738.54	12,367,681.62	5,567,635.15	2,144,304.37	468,004,359.68

Item	Neither past due nor impaired	Balance at the beginning of the period Past due but not impaired			Total
		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	258,945,599.51	23,372,292.55	1,274,867.21	2,195,247.13	285,788,006.40
Other receivables	8,858,237.88				8,858,237.88
Total	463,646,127.34	23,372,292.55	1,274,867.21	2,195,247.13	490,488,534.23

(2) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

9. OTHER IMPORTANT MATTERS (continued)

(1) Financial instruments and risk management (continued)

2. Objectives and policies of financial risk management (continued)

(2) Liquidity risk (continued)

For the purpose of controlling the risk, the Company sets its objective as maintaining 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 Company has obtained banking facilities from several commercial banks to fund the working capital requirements and capital expenditure.

Management of the Company monitors the liquidity position of the Company 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 Company's financial resources.

1) Classification of financial assets based on the remaining maturity:

Item	Carrying value	Balance at the end of the period			
		Contractual Undiscounted amount	Within 1 year	1-3 years	Over 3 years
Cash on hand and at bank	66,950,127.71	66,950,127.71	66,950,127.71		
Notes receivable	107,726,195.93	107,726,195.93	107,726,195.93		
Accounts receivable	278,671,401.35	278,671,401.35	278,671,401.35		
Other receivables	14,656,634.69	14,656,634.69	14,656,634.69		
Total	468,004,359.68	468,004,359.68	468,004,359.68		

Item	Carrying value	Balance at the beginning of the period			
		Contractual Undiscounted amount	Within 1 year	1-3 years	Over 3 years
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		
Total	490,488,534.23	490,488,534.23	490,488,534.23		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

9. OTHER IMPORTANT MATTERS (continued)

(1) Financial instruments and risk management (continued)

2. Objectives and policies of financial risk management (continued)

(2) Liquidity risk (continued)

2) Classification of financial liabilities based on the remaining maturity:

Item	Carrying value	Balance at the end of the period			
		Contractual Undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank borrowings	250,630,400.00	261,860,312.93	258,039,812.93		3,820,500.00
Notes payable	39,542,300.00	39,542,300.00	39,542,300.00		
Accounts payable	182,042,731.52	182,042,731.52	182,042,731.52		
Employee benefits payable	6,935,081.29	6,935,081.29	6,935,081.29		
Interest payable	1,508,401.59	1,508,401.59	1,508,401.59		
Other payables	1,898,639.32	1,898,639.32	1,898,639.32		
Total	482,557,553.72	493,787,466.65	489,966,966.65		3,820,500.00

Item	Carrying value	Balance at the beginning of the period			
		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		
Total	410,922,164.30	422,043,476.38	404,439,359.72	13,995,866.66	3,608,250.00

(3) 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 2013, the bank borrowings of the Company with floating interest rates were RMB61,000,000.00 (31 December 2012: RMB141,500,000.00), 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

Foreign exchange risk is a risk caused by changes in exchange rates. The Company operates in Mainland China, and transactions of its main operation are presented in RMB. Therefore, the Company's exposure to foreign exchange risk is not significant.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

9. OTHER IMPORTANT MATTERS (continued)

(1) Financial instruments and risk management (continued)

2. Objectives and policies of financial risk management (continued)

(4) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern, provide returns to shareholders and benefits to other stakeholders, while maintaining the optimal capital structure to reduce the cost of capital.

The capital structure of the Company consists of short-term bank borrowings, bank deposits and equity attributable to shareholders of the Company. The management determines the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Company will balance its overall capital structure through the payment of dividends, new share issues as well as repayment of existing borrowings.

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. As at 31 December 2013, the Company's gearing ratio was 19.85% (2012: 16.42%). The calculation is described as follow:

Item	Balance at the end of the period	Balance at the beginning of the period
Total borrowings	250,630,400.00	220,920,400.00
Less: Cash and cash equivalents	58,609,424.36	76,773,167.14
Net debt	192,020,975.64	144,147,232.86
Equity	775,432,518.18	733,825,860.28
Total capital	967,453,493.82	877,973,093.14
Gearing ratio	19.85%	16.42%

(2) External guarantee

1. Mortgaged properties of the Company as at 31 December 2013 (Unit: RMB0,000)

Subject of the guarantee	Pledgee	Collateral	Carrying value	Guaranteed loan	Date of maturity	Guarantee
Wuhu Sterling	Wuhu Branch of Bank of Communications Co., Ltd.	Buildings and structures, land use rights	1,301.41	1,700.00	2014.08.27–2014.10.28	Borrowings

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

9. OTHER IMPORTANT MATTERS (continued)

(2) External guarantee (continued)

2. Pledged properties of the Company as at 31 December 2013 (Unit: RMB0,000)

Subject of the guarantee	Pledgee	Collateral	Carrying value	Guaranteed loan	Date of maturity	Guarantee
Hangzhou Shibao Auto Steering Gear Co., Ltd.	Hangzhou branch of China CITIC Bank Corporation Limited	Notes receivable	1,400.00	1,360.00	2014.02.03	Borrowings
Hangzhou Shibao Auto Steering Gear Co., Ltd.	Hangzhou branch of China CITIC Bank Corporation Limited	Notes receivable	410.00	390.00	2014.06.19	Borrowings
Hangzhou Shibao Auto Steering Gear Co., Ltd.	Hangzhou branch of China CITIC Bank Corporation Limited	Notes receivable	130.00	125.00	2014.06.26	Borrowings
Hangzhou New Shibao Electric Power Steering Co., Ltd.	Hangzhou branch of China CITIC Bank Corporation Limited	Notes receivable	100.09	100.09	2014.02.27	Banker's acceptances
Hangzhou New Shibao Electric Power Steering Co., Ltd.	Hangzhou branch of China CITIC Bank Corporation Limited	Notes receivable	150.00	150.00	2014.01.30	Banker's acceptances
Jilin Shibao Machinery Manufacturing Co., Ltd.	Zhongyang Dong Lu Subbranch, Siping Branch of Industrial and Commercial Bank of China Limited	Notes receivable	300.00	300.00	2014.03.25	Banker's acceptances
Jilin Shibao Machinery Manufacturing Co., Ltd.	Zhongyang Dong Lu Subbranch, Siping Branch of Industrial and Commercial Bank of China Limited	Notes receivable	230.20	230.20	2014.01.06	Banker's acceptances
Wuhu Sterling Steering System Co., Ltd.	Wuhu Branch of Bank of Communications Co., Ltd.	Notes receivable	300.00	259.00	2014.02.28 – 2014.06.20	Banker's acceptances

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

9. OTHER IMPORTANT MATTERS (continued)

(3) Segmented reporting

1. Operating segment

As the operations and assets of both the Company and its subsidiaries are mainly located in Mainland China where 89.42% of the revenue was generated from domestic sales, no detailed segment information is required to be disclosed.

2. Information about major customers

- (1) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company in 2013 is as follows:

Name of customer	Revenue	Proportion to total revenue of the Company (%)
FAW Car Co., Ltd. (一汽轎車股份有限公司)	150,757,743.63	22.35
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	80,692,932.98	11.96
SAZEH GOSTAR SAIPA CO.	71,355,292.68	10.58

- (2) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company in 2012 is as follows:

Name of customer	Revenue	Proportion to total revenue of the Company (%)
FAW Car Co., Ltd. (一汽轎車股份有限公司)	114,067,910.63	20.8
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	80,840,001.16	14.74

(4) Other financial information

Item	Balance at the end of the period		Balance at the beginning of the period	
	Consolidated	The Parent	Consolidated	The Parent
Net current assets	184,010,834.07	211,701,322.63	236,381,060.33	248,828,993.74
Total assets less current liabilities	813,459,928.13	408,730,648.76	778,946,236.84	405,120,081.24

- (5) As at the date of the approval of this financial report, both the Company and its subsidiaries have not completed the procedures for the settlement of the Enterprise Income Tax for 2013.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

10. NOTES TO THE FINANCIAL STATEMENTS

(1) Notes to the Balance Sheet of the Parent Company

1. Accounts receivable

(1) Breakdown

1) Breakdown by categories

Categories	Balance at the end of the period				Balance at the beginning of the period			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Individually significant amount with bad debt provision on individual basis	43,153,425.67	99.33			19,391,554.80	98.04		
Individually insignificant but significant based on credit risk characteristics	292,979.00	0.67	292,979.00	100.00	387,681.91	1.96	387,681.91	100.00
Individually insignificant amount with bad debt provision on individual basis								
Total	43,446,404.67	100.00	292,979.00	0.67	19,779,236.71	100.00	387,681.91	1.96

2) The aging analysis of accounts receivable is as follows:

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	(%)	Amount	Amount	(%)	Amount
Within 1 year	31,011,870.87	71.38		19,391,554.80	98.04	
1–2 years	12,141,554.80	27.95				
2–3 years				94,702.91	0.48	94,702.91
Over 3 years	292,979.00	0.67	292,979.00	292,979.00	1.48	292,979.00
Sub-total	43,446,404.67	100.00	292,979.00	19,779,236.71	100.00	387,681.91

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

(1) Notes to the Balance Sheet of the Parent Company (continued)

1. Accounts receivable (continued)

(1) Breakdown (continued)

3) Individually significant amount with bad debt provision on individual basis

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Receivables of sales payment from Wuhu Sterling	43,153,425.67			Individual impairment test showed no risk was expected of balance recover
Sub-total	43,153,425.67			

4) Provision for bad debts by groups

Group name	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	292,979.00	100.00	292,979.00
Sub-total	292,979.00	100.00	292,979.00

(2) Reversed or recovered during the period

Description	Reason to reverse or recover	Original criterias to recognize the provision for bad debts	Accumulated amount of provision for bad debts before reverse or recover	Reversed or recovered amount
Nanjing Dong Hua Automobile Steering Gear Co., Ltd. (南京東華汽車轉向器有限公司)	Remaining balance recovered	Expected of balance unrecovered	94,702.91	94,702.91
Sub-total			94,702.91	94,702.91

(3) As at the end of the period, the Company had no accounts receivable from any shareholders holding 5% (inclusive) or more of the voting rights of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

(1) Notes to the Balance Sheet of the Parent Company (continued)

1. Accounts receivable (continued)

(4) The five largest accounts receivable

Name	Relationship with the Company	Carrying amount	Ageing	Percentage of total accounts receivable (%)
Wuhu Sterling (蕪湖世特瑞)	Controlling subsidiary	43,153,425.67	Within 1 year, 1-2 years	99.33
Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd. (贛州江環汽車製造有限公司)	Non related party	125,000.00	Over 3 years	0.29
Hubei San Huan Special Vehicle Co., Ltd. (湖北三環專用汽車有限公司)	Non related party	43,400.00	Over 3 years	0.10
Dongfeng Motor Transmission Shaft Co., Ltd. Shiyuan Sub-company (東風汽車傳動軸有限公司十堰分公司)	Non related party	36,000.00	Over 3 years	0.08
Luoyang Biao Ma Vehicle Co., Ltd. (洛陽彪馬車輛有限公司)	Non related party	32,770.00	Over 3 years	0.08
Sub-total		<u>43,390,595.67</u>		<u>99.88</u>

(5) Accounts receivable from related party

Name	Relationship with the Company	Carrying amount	Percentage of total accounts receivable (%)
Wuhu Sterling	Controlling subsidiary	<u>43,153,425.67</u>	<u>99.33</u>
Sub-total		<u>43,153,425.67</u>	<u>99.33</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

(1) Notes to the Balance Sheet of the Parent Company (continued)

2. Other receivables

(1) Breakdown

1) Breakdown categories

Categories	Balance at the end of the period				Balance at the beginning of the period			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Individually significant amount with bad debt provision on individual basis	240,864,853.01	99.89			231,178,887.12	99.90		
Individually insignificant but significant based on credit risk characteristics	54,504.42	0.02			102,259.22	0.04		
Individually insignificant amount with bad debt provision on individual basis	205,873.37	0.09			135,263.64	0.06		
Total	241,125,230.80	100.00			231,416,409.98	100.00		

2) The aging analysis of accounts receivable is as follows:

Age	Balance at the end of the period				Balance at the beginning of the period			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Within 1 year	69,900,626.85	28.99			115,435,363.16	49.88		
1-2 years	101,229,156.73	41.98			28,725,029.60	12.41		
2-3 years	17,700,000.00	7.34			44,729,393.80	19.33		
Over 3 years	52,295,447.22	21.69			42,526,623.42	18.38		
Sub-total	241,125,230.80	100.00			231,416,409.98	100.00		

3) Individually significant amount with bad debt provision on individual basis

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Other receivables from Jilin Shibao and others	240,864,853.01			Individual impairment test showed no risk was expected of balance recover
Sub-total	240,864,853.01			

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

(1) Notes to the Balance Sheet of the Parent Company (continued)

2. Other receivables (continued)

(1) Breakdown (continued)

4) Provision for bad debts by groups

Group name	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	54,504.42		
Sub-total	54,504.42		

5) Individually insignificant amount with bad debt provision at end of the period

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Other receivables of individual imprest and others	205,873.37			Individual impairment test showed no risk was expected of balance recover
Sub-total	205,873.37			

(2) As at the end of the period, the Company had no accounts receivable from any shareholders holding 5% (inclusive) or more of the voting rights of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

(1) Notes to the Balance Sheet of the Parent Company (continued)

2. Other receivables (continued)

(3) The five largest other receivables

Name	Relationship with the Company	Carrying amount	Ageing	Percentage of total other receivables (%)	Remarks
Jilin Shibao	Controlling subsidiary	105,290,000.00	Within 1 year, 1-2 years, 2-3 years, over 3 years	43.67	Current account
Hangzhou New Shibao	Controlling subsidiary	73,000,000.00	Within 1 year, 1-2 years	30.27	Current account
Siping Steering	Controlling subsidiary	24,256,483.91	Within 1 year, 1-2 years	10.06	Current account
Hangzhou Shibao	Controlling subsidiary	15,049,369.10	Within 1 year	6.24	Current account
Beijing Autonic	Controlling subsidiary	14,400,000.00	Within 1 year, 1-2 years, 2-3 years	5.97	Current account
Sub-total		<u>231,995,853.01</u>		<u>96.21</u>	Current account

(4) Other receivables from related party

Name	Relationship with the Company	Carrying amount	Percentage of total other receivables (%)
Jilin Shibao	Controlling subsidiary	105,290,000.00	43.67
Hangzhou New Shibao	Controlling subsidiary	73,000,000.00	30.27
Siping Steering	Controlling subsidiary	24,256,483.91	10.06
Hangzhou Shibao	Controlling subsidiary	15,049,369.10	6.24
Beijing Autonic	Controlling subsidiary	14,400,000.00	5.97
Sub-total		<u>231,995,853.01</u>	<u>96.21</u>

3. Long-term equity investments

Investees	Accounting method	Investment cost	Balance at the beginning of the period	Movement	Balance at the end of the period
Hangzhou Shibao	Cost method	70,461,807.49	40,750,000.00	29,711,807.49	70,461,807.49
Hangzhou New Shibao	Cost method	42,000,000.00	42,000,000.00		42,000,000.00
Jilin Shibao	Cost method	30,000,000.00	30,000,000.00		30,000,000.00
Wuhu Sterling	Cost method	22,609,936.00	9,376,207.19	10,071,200.19	19,447,407.38
Siping Steering	Cost method	8,250,000.00	8,250,000.00		8,250,000.00
Beijing Autonic	Cost method	7,000,000.00	7,000,000.00		7,000,000.00
Total		<u>180,321,743.49</u>	<u>137,376,207.19</u>	<u>39,783,007.68</u>	<u>177,159,214.87</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

(1) Notes to the Balance Sheet of the Parent Company (continued)

3. Long-term equity investments (continued)

Investees	Share-holding (%)	Voting right (%)	Explanation of different shareholding and voting right	Impairment provision	Impairment provision made during the period	Cash dividend for the period
Hangzhou Shibao	100.00	100.00				20,000,000.00
Hangzhou New Shibao	70.00	70.00				
Jilin Shibao	100.00	100.00				
Wuhu Sterling	57.89	57.89				
Siping Steering	75.00	75.00				5,000,000.00
Beijing Autonic	70.00	70.00				
Total						25,000,000.00

(2) Notes to the Income Statement

1. Revenue/cost of sales

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Revenue from main business	38,947,292.58	40,232,232.33
Revenue from other business	135,431.84	
Cost of sales	27,582,129.86	28,768,542.26

(2) Revenue from main business/Cost of sales for main business (by sectors)

Sector	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Automobile components and spare parts manufacture	38,947,292.58	27,446,698.02	40,232,232.33	28,768,542.26
Subtotal	38,947,292.58	27,446,698.02	40,232,232.33	28,768,542.26

(3) Revenue from main business/Cost of sales for main business (by products)

Product	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Spare parts and others	38,947,292.58	27,446,698.02	40,232,232.33	28,768,542.26
Subtotal	38,947,292.58	27,446,698.02	40,232,232.33	28,768,542.26

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

(2) Notes to the Income Statement (continued)

1. Revenue/cost of sales (continued)

(4) Revenue from the five largest customers

Name	Revenue	Proportion to revenue (%)
Wuhu Sterling	22,797,363.16	58.33
Hangzhou Shibao	15,643,356.88	40.03
Yiwu City He Feng Automobile Spare Parts Co., Ltd. (義烏市和豐汽車配件有限公司)	112,299.84	0.29
Zhejiang Wuyi Hua Rong Ductile Iron Casting Co., Ltd. (浙江武義華榮球鐵鑄造有限公司)	89,585.66	0.23
Siping Steering	88,199.00	0.23
Subtotal	38,730,804.54	99.11

2. Investment gains

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from long-term equity investments under cost method of accounting	25,000,000.00	65,000,000.00
Investment gains from long-term equity investments under equity method of accounting	71,200.19	(2,320,692.91)
Total	25,071,200.19	62,679,307.09

(2) Investment gains from long-term equity investments under cost method of accounting

Investee	Balance for the current period	Balance for the corresponding period last year	Reasons of increase/decrease as compared with the previous period
Hangzhou Shibao	20,000,000.00	50,000,000.00	Less dividend distribution by the investee
Siping Steering	5,000,000.00	15,000,000.00	Less dividend distribution by the investee
Subtotal	25,000,000.00	65,000,000.00	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

(2) Notes to the Income Statement (continued)

2. Investment gains (continued)

(3) Investment gains from long-term equity investments under equity method of accounting

Investee	Balance for the current period	Balance for the corresponding period last year	Reasons of increase/ decrease as compared with the previous period
Wuhu Sterling	71,200.19	(2,320,692.91)	The investee has been consolidated in the Company's financial statements from May during the period
Subtotal	<u>71,200.19</u>	<u>(2,320,692.91)</u>	

(4) Description of major restriction on the remittance of investment gains

There was no major restriction on the remittance of investment gains by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

(3) Supplemental information on the statement of cash flows of the Parent Company

Supplemental information	Balance for the current period	Balance for the corresponding period last year
1. Net profit adjusted to cash flows in relation to operating activities:		
Net profit	25,823,195.92	64,289,996.11
Add: Provision for impairment to assets	(94,702.91)	(112,299.84)
Depreciation of fixed assets, oil and gas assets and production related biological materials	1,075,702.66	885,439.44
Amortization of intangible assets	199,483.64	172,646.04
Amortization of long-term deferred expenses		
Losses/(gains) on disposal of fixed assets, intangible assets and other long-term assets	(10,426.15)	5,814.86
Losses/(gains) on write-off of fixed assets		
Losses/(gains) on changes of fair value		
Finance expenses/(gains)	4,413,360.47	3,384,052.23
Investment losses/(gains)	(25,071,200.19)	(62,679,307.09)
Decrease/(increase) in deferred income tax assets	23,675.73	28,659.97
Increase/(decrease) in deferred income tax liabilities		
Decrease/(increase) in inventories	(1,951,617.34)	880,102.41
Decrease/(increase) in operational receivables	(24,819,492.50)	(11,341,753.15)
Increase/(decrease) in operational payables	(1,477,900.83)	(6,299.83)
Others		(3,000,000.00)
	<u>(21,889,921.50)</u>	<u>(7,492,948.85)</u>
2. Significant investment and financing activities not related to cash receipts and payments:		
Debts transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3. Net change in cash and cash equivalents:		
Cash at the end of the period	10,360,957.46	31,336,987.85
Less: Cash at the beginning of the period	31,336,987.85	997,762.45
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
	<u>(20,976,030.39)</u>	<u>30,339,225.40</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

11. OTHER IMPORTANT MATTERS

(1) Non-recurring gain and loss

Item	Amount	Description
Gain or loss on disposal of non-current assets, inclusive of provision for assets impairment write-off	(115,538.52)	
Unauthorised approvals or items without duly approved documents, or occasional tax rebate or tax credits		
Government grants (except for government grants which are closely related to the Company's ordinary business and conforms with the national policies as well as standard amount and quantities or continuous government grants) recognized in gains or losses during the current period	7,730,737.71	
Fees for usage of funds received from non-financial enterprises recognized in profits and losses during the current period		
Investment costs paid by the investor in acquiring the subsidiaries, associates and joint ventures less the gain derived from the fair value of the investee's identifiable net assets at the time of investment	11,078,565.05	
Profit and loss from exchange of non-monetary assets		
Gains or losses from discretionary investment or asset management		
Impairment provisions for assets due to force majeure factors such as natural disasters		
Gains or losses from debt restructuring		
Corporate restructuring fees such as staff resettlement expenses, consolidation charges, etc.		
Gains or losses arising from transactions at unfair trading prices over their fair value		
Net gains or losses from the subsidiary formed by merging jointly controlled enterprises from the beginning of the reporting period to the date of merger attributable to the current period		
Gains or losses from contingency items unrelated to the normal business operations of the Company		
Change in gains or losses generated from held for trading financial assets, change in fair value generated from trading financial liabilities, investment gains from disposal of trading financial assets and trading financial liabilities and financial assets available for sale, other than effective hedging activities associated with normal business operations of the Company	14,739.73	
Reversal of impairment provisions for receivables subject to individual impairment test	262,065.18	
Gains or losses from external entrusted loans		
Gains or losses from changes in fair value of investment properties adopting fair value method for follow-up measurements		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

11. OTHER IMPORTANT MATTERS (continued)

(1) Non-recurring gain and loss (continued)

Item	Amount	Description
Effect on gains and losses for the current period from one-off adjustment to gains and losses for the period according to the requirements of the tax and accounting laws and regulations		
Discretionary fee income received from discretionary operations		
Other non-operating income and expenses apart from those stated above	90,117.43	
Other gains and losses items conforming with the definition of non-recurring gains or losses		
Sub-total	19,060,686.58	
Less: Effect on enterprise income tax (reduction in income tax)	214,817.97	
Effect on interest of minority shareholders (after tax)	1,142,420.77	
Items of non-recurring gains or losses attributable to equity holders of the parent	17,703,447.84	

(2) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

11. OTHER IMPORTANT MATTERS (continued)

(3) Return on net assets and earnings per share

1. Details

Profit during the period	Weighted average return on net assets ratio %	Earnings per share (RMB/share)	
		Basic	Diluted
Net profit attributable to the holders of the Company's ordinary shares	6.69	0.18	0.18
Net profit, after deduction of non-recurring gain and loss, attributable to the holders of the Company's ordinary shares	4.26	0.11	0.11

2. Calculation of weighted average return on net assets ratio

Item	No.	Balance for the current period
Net profit attributable to ordinary shareholders of the Company	A	48,823,967.72
Non-recurring gain and loss	B	17,703,447.84
Net profit net of non-recurring gain and loss attributable to ordinary shareholders of the Company	C=A-B	31,120,519.88
Net assets at the beginning of the period attributable to ordinary shareholders of the Company	D	716,941,766.52
Additions to net assets as a result of an issue of shares, conversion of loans, etc. attributable to ordinary shareholders of the Company	E	
Number of months from the month after increase in assets to end of reporting period	F	
Decrease in net assets net of repurchase, bonus, etc. attributable to ordinary shareholders of the Company	G	22,212,628.40
Number of months from the month after decrease in assets to end of reporting period	H	6.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

11. OTHER IMPORTANT MATTERS (continued)

(3) Return on net assets and earnings per share (continued)

2. Calculation of weighted average return on net assets ratio (continued)

Item	No.	Balance for the current period
Others		
Reclassification adjustment for net profit of loss included in other consolidated income	I ₁	
Number of months from the month after change in assets to end of reporting period	J ₁	
Net gain (loss) from financial assets available for sale	I ₂	
Number of months from the month after change in assets to end of reporting period	J ₂	
Foreign currency translation differences for financial statements	I ₃	
Number of months from the month after change in assets to end of reporting period	J ₃	
Number of months during the reporting period	K	12.00
Weighted average net assets	$L = D + A/2 + E \times F / K - G \times H / K \pm I \times J / K$	730,247,436.18
Weighted average return on net assets ratio	$M = A/L$	6.69%
Weighted average return on net assets ratio, after deduction of non-recurring gain and loss	$N = C/L$	4.26%

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

11. OTHER IMPORTANT MATTERS (continued)

(4) Description on irregular movements in major items of the financial statements and the reason

Item in the balance sheet	Balance at the end of the period	Balance at the beginning of the period	Change	Reasons for the change
Notes receivable	107,726,195.93	117,298,613.04	(8.16)%	(Note 1)
Accounts receivable	278,671,401.35	285,788,006.40	(2.49)%	(Note 2)
Other receivables	14,656,634.69	8,858,237.88	65.46%	(Note 3)
Inventory	180,906,462.73	136,467,615.08	32.56%	(Note 4)
Other current assets	18,682,541.03	5,224,181.63	257.62%	(Note 5)
Fixed assets	436,022,601.37	352,252,860.50	23.78%	(Note 6)
Construction in progress	50,226,907.30	92,861,833.52	(45.91)%	(Note 7)
Intangible assets	111,106,921.94	70,278,922.57	58.09%	(Note 8)
Deferred tax assets	4,655,061.06	3,540,202.68	31.49%	(Note 9)
Other non-current assets	22,743,120.05	14,255,150.05	59.54%	(Note 10)
Short-term borrowings	234,750,000.00	191,500,000.00	22.58%	(Note 11)
Notes payable	39,542,300.00	19,849,353.45	99.21%	(Note 12)
Accounts payable	182,042,731.52	163,609,486.56	11.27%	(Note 13)
Employee benefits payable	6,935,081.29	4,214,108.09	64.57%	(Note 14)
Taxes payable	6,442,301.09	(2,571,272.18)	(350.55)%	(Note 15)
Deferred income tax liabilities	9,104,181.29	1,505,958.33	504.54%	(Note 16)

Item in the income statement	Balance for the current period	Balance for the corresponding period last year	Change (%)	Reasons for the change
Revenue	674,596,299.70	548,384,676.25	23.02%	(Note 17)
Cost of sales	496,308,510.32	379,802,713.65	30.68%	(Note 18)
Selling expenses	50,068,677.27	33,163,289.07	50.98%	(Note 19)
General and administrative expenses	78,930,895.74	61,988,355.05	27.33%	(Note 20)
Financial expenses	11,464,634.83	8,569,382.77	33.79%	(Note 21)
Asset impairment losses	1,347,824.64	(1,981,818.96)	(168.01)%	(Note 22)
Investment gains/(losses)	10,668,873.53	(2,320,296.63)	(559.81)%	(Note 23)
Non-operating income	8,212,352.15	20,899,618.87	(60.71)%	(Note 24)
Income tax expenses	5,227,089.81	10,601,542.25	(50.70)%	(Note 25)

NOTES TO THE FINANCIAL STATEMENTS

For the year 2013 | RMB Yuan | (English Translation for Reference Only)

11. OTHER IMPORTANT MATTERS (continued)

(4) Description on irregular movements in major items of the financial statements and the reason (continued)

- | | |
|-----------|---|
| (Note 1) | The decrease was mainly due to an increase in banker's acceptances by endorsement. |
| (Note 2) | The decrease was mainly due to an improvement in settlement from customers during the year. |
| (Note 3) | The increase was mainly due to an increase in deposit payment during the period. |
| (Note 4) | The increase was mainly due to an increase in inventory attributable to an inclusion of Wuhu Sterling in the consolidated financial statements, and an increase in sales of Hangzhou Shibao during the period. |
| (Note 5) | The increase was mainly due to a re-classification of value added tax recoverable at the end of the period. |
| (Note 6) | The increase was mainly due to an increase in fixed assets attributable to an inclusion of Wuhu Sterling in the consolidated financial statements during the period. |
| (Note 7) | The decrease was mainly due to a transfer of equipment available for use or work to fixed assets. |
| (Note 8) | The increase was mainly due to an increase in intangible assets attributable to an inclusion of Wuhu Sterling in the consolidated financial statements during the period. |
| (Note 9) | The increase was mainly due to a deferred income tax provided for deductible losses by Jilin Shibao, a subsidiary controlled by the Company. |
| (Note 10) | The increase was mainly due to an increase in prepayments for assets. |
| (Note 11) | The increase was mainly due to an increase in short-term borrowings attributable to an inclusion of Wuhu Sterling in the consolidated financial statements during the period. |
| (Note 12) | The increase was mainly due to an optimization of fund usage through an increase in settlement by notes. |
| (Note 13) | The increase was mainly due to an increase in accounts payable attributable to an inclusion of Wuhu Sterling in the consolidated financial statements during the period. |
| (Note 14) | The increase was mainly due to an increase in unpaid employee benefit at the end of the period. |
| (Note 15) | The decrease was mainly due to a re-classification of value added tax recoverable at the end of the period and a decrease in income tax payable during the period. |
| (Note 16) | The increase was mainly due to an adjustment in recognized fair value after the acquisition of Wuhu Sterling through business combination without involving entities under common control during the period. |
| (Note 17) | The increase was mainly due to a corresponding increase in revenue attributable to an expansion in production and sales volume and an inclusion of Wuhu Sterling in the consolidated financial statements during the period. |
| (Note 18) | The increase was mainly due to a corresponding increase in cost of sales carried forward in accordance with product sales attributable to an expansion in production and sales volume, and an inclusion of Wuhu Sterling in the consolidated financial statements during the period. |
| (Note 19) | The increase was mainly due to an increase in transportation and storage cost, and warranty fee. |
| (Note 20) | The increase was mainly due to an increase in research and development expenses, and employee benefits. |
| (Note 21) | The increase was mainly due to an increase in bank borrowings, as compared with that of the same period last year, for an expansion in the production and sales volume during the period. |
| (Note 22) | The decrease was mainly due to a provision for bad debts of accounts receivable and diminution in the value of inventories, respectively, during the period. |
| (Note 23) | During this period, the Company acquired Wuhu Sterling through business combination not involving entities under common control. For the previously held interest in Wuhu Sterling before the acquisition date, the interest was remeasured at fair value on the acquisition date and an investment income was recognized. These are the main reasons for the decrease. |
| (Note 24) | The decrease was mainly due to a decrease in government grants and gains from disposal of non-current assets, respectively, during the period. |
| (Note 25) | The decrease was mainly due to a decrease in total profit during the period. |

12. THE FINANCIAL STATEMENTS HAVE BEEN ADAPTED FOR PUBLICATION AT THE 15TH MEETING OF THE FOURTH BOARD OF DIRECTORS ON 21 MARCH 2014

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 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 Shibao Holding
“Chery Auto”	Chery Automobile Co., Ltd.
“Company or Zhejiang Shibao or Zhejiang Shibao Company”	Zhejiang Shibao Company Limited
“Corporate Governance Code or CG Code”	Corporate Governance Code and Corporate Governance Report, Appendix 14 to the Listing Rules of Hong Kong Stock Exchange
“CSRC”	China Securities Regulatory Committee
“Director(s)”	Director(s) of the Company
“Dongfeng Group”	Dongfeng Motor Company
“FAW Car”	FAW Car Co., Ltd.
“FAW Group”	FAW Group Corporation
“Final Dividend”	Final dividend for the year ended 31 December 2013
“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
“Shibao Holding or Zhejiang Shibao Holding or Ultimate Holding Company”	Zhejiang Shibao Holding Group Co., Ltd.
“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., became a subsidiary controlled by the Company since 22 April 2013