

SHIBAO

STEERING THE FUTURE | 2014 INTERIM 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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FINANCIAL HIGHLIGHTS

	30 June 2014	30 June 2013	
	RMB	RMB	Change
Revenue	394,679,944.00	313,749,840.37	25.79%
Gross profit margin	27.32%	27.26%	0.06%
Net profit attributable to equity holders of the Parent	27,781,320.27	34,845,868.36	-20.27%
Net profit after non-recurring gains and losses attributable to equity holders of the Parent	24,640,250.99	23,207,501.52	6.17%
Net cash flow from operating activities	49,181,447.21	13,823,997.26	255.77%
Basic earnings per share (RMB/Share)	0.10	0.13	-23.08%
Diluted earnings per share (RMB/Share)	0.10	0.13	-23.08%
Weighted average return on net assets (%)	3.67%	4.75%	-1.08%

	30 June 2014	31 December 2013	
	RMB	RMB	Change
Total assets	1,390,023,376.27	1,314,155,640.47	5.77%
Net assets attributable to equity holders of the Parent	746,871,797.71	743,553,105.84	0.45%

UNAUDITED INTERIM FINANCIAL STATEMENTS

The Board of the Company is pleased to announce the unaudited consolidated financial statements of the Group for the six months ended 30 June 2014, together with the comparative figures for the corresponding period in 2013. The accounting information contained in the interim report has not been audited but has been reviewed by the Audit Committee of the Company.

CONSOLIDATED BALANCE SHEET

30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2014 (unaudited)	31 December 2013 (audited)
Current Assets:		
Cash on hand and at bank	108,728,648.85	66,950,127.71
Notes receivable	98,631,845.26	107,726,195.93
Accounts receivable	306,955,513.93	278,671,401.35
Prepayments	4,940,815.57	6,645,582.97
Other receivables	13,932,880.70	14,656,634.69
Inventories	186,003,471.74	180,906,462.73
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	14,239,005.70	18,682,541.03
Total current assets	<u>733,432,181.75</u>	<u>684,706,546.41</u>
Non-current Assets:		
Fixed assets	423,291,016.22	436,022,601.37
Construction in progress	55,771,225.13	50,226,907.30
Intangible assets	136,765,184.57	111,106,921.94
Goodwill income	4,694,482.34	4,694,482.34
Deferred income tax assets	3,774,896.82	4,655,061.06
Other non-current assets	32,294,389.44	22,743,120.05
Total non-current assets	<u>656,591,194.52</u>	<u>629,449,094.06</u>
Total Assets	<u>1,390,023,376.27</u>	<u>1,314,155,640.47</u>
Current Liabilities:		
Short-term loans	263,175,846.41	234,750,000.00
Notes payable	47,188,600.00	39,542,300.00
Accounts payable	194,338,068.67	182,042,731.52
Receipts in advance	3,630,801.96	4,591,550.94
Staff costs payable	7,683,876.56	6,935,081.29
Taxes payable	5,118,361.60	6,442,301.09
Interests payable	1,746,846.26	1,508,401.59
Dividend payable	22,962,628.40	–
Other payables	8,552,557.27	1,898,639.32
Non-current liabilities due within one year	13,050,400.00	13,050,400.00
Other current liabilities	11,113,373.28	9,934,306.59
Total current liabilities	<u>578,561,360.41</u>	<u>500,695,712.34</u>
Non-current Liabilities:		
Long-term borrowings	2,830,000.00	2,830,000.00
Deferred income tax liabilities	8,640,247.57	9,104,181.29
Other non-current liabilities	29,063,784.52	26,093,228.66
Total non-current liabilities	<u>40,534,032.09</u>	<u>38,027,409.95</u>
Total Liabilities	<u>619,095,392.50</u>	<u>538,723,122.29</u>

CONSOLIDATED BALANCE SHEET

30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2014 (unaudited)	31 December 2013 (audited)
Shareholders' Equity:		
Share capital	277,657,855.00	277,657,855.00
Capital reserve	40,049,204.72	42,299,204.72
Surplus reserve	113,899,265.72	113,899,265.72
Retained earnings	315,265,472.27	309,696,780.40
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Equity attributable to equity holders of the Parent	746,871,797.71	743,553,105.84
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Minority interests	24,056,186.06	31,879,412.34
	<hr/>	<hr/>
Total Shareholders' Equity	770,927,983.77	775,432,518.18
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Total Liabilities and Shareholders' Equity	1,390,023,376.27	1,314,155,640.47
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CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Revenue	394,679,944.00	313,749,840.37
Less: Cost of sales	286,843,808.96	228,227,679.02
Business taxes and surcharges	2,271,553.30	1,863,989.77
Selling expenses	25,261,994.55	18,452,268.19
General and administrative expenses	45,726,310.59	33,820,122.86
Financial expenses	7,792,460.20	5,074,450.31
Assets impairment losses	964,739.86	–
Add: Investment gains	–	10,654,133.80
Including: investment losses from associates	–	-438,462.92
Operating profit	25,819,076.54	36,965,464.02
Add: Non-operating income	3,700,447.93	2,013,654.87
Less: Non-operating expenses	364,814.73	1,343,333.16
Including: Loss on disposal of non-current assets	6,531.70	4,563.81
Total profit	29,154,709.74	37,635,785.73
Less: Income tax expenses	5,696,615.75	4,221,315.41
Net Profit	<u>23,458,093.99</u>	<u>33,414,470.32</u>
Net profit attributable to equity holders of the Parent	<u>27,781,320.27</u>	<u>34,845,868.36</u>
Minority interests	<u>-4,323,226.28</u>	<u>-1,431,398.04</u>
Earnings per share:		
(1) Basic earnings per share	0.10	0.13
(2) Diluted earnings per share	0.10	0.13
Other comprehensive income	–	–
Total comprehensive income	<u>23,458,093.99</u>	<u>33,414,470.32</u>
Total comprehensive income attributable to equity holders of the Parent	<u>27,781,320.27</u>	<u>34,845,868.36</u>
Total comprehensive income attributable to minority shareholders	<u>-4,323,226.28</u>	<u>-1,431,398.04</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2014 (unaudited)					
	Attributable to equity holders of the Parent				Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings		
1. Balance at the end of last year	277,657,855.00	42,299,204.72	113,899,265.72	309,696,780.40	31,879,412.34	775,432,518.18
2. Balance at the beginning of year	277,657,855.00	42,299,204.72	113,899,265.72	309,696,780.40	31,879,412.34	775,432,518.18
3. Increase/(decrease) during the period	-	-2,250,000.00	-	5,568,691.87	-7,823,226.28	-4,504,534.41
(1) Net profit	-	-	-	27,781,320.27	-4,323,226.28	23,458,093.99
(2) Contribution by shareholders and decrease in capital	-	-2,250,000.00	-	-	-2,750,000.00	-5,000,000.00
1. Other	-	-2,250,000.00	-	-	-2,750,000.00	-5,000,000.00
(3) Appropriation of profits	-	-	-	-22,212,628.40	-750,000.00	-22,962,628.40
1. Distribution to shareholders	-	-	-	-22,212,628.40	-750,000.00	-22,962,628.40
4. Balance at the end of the period	277,657,855.00	40,049,204.72	113,899,265.72	315,265,472.27	24,056,186.06	770,927,983.77

Item	30 June 2013 (unaudited)					
	Attributable to equity holders of the Parent				Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings		
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	-	-	2,049,714.09	10,583,525.87	17,358,791.07	29,992,031.03
(1) Net profit	-	-	-	34,845,868.36	-1,431,398.04	33,414,470.32
(2) Contribution by shareholders and decrease in capital	-	-	-	-	18,790,189.11	18,790,189.11
1. Other	-	-	-	-	18,790,189.11	18,790,189.11
(3) Appropriation of profits	-	-	2,049,714.09	-24,262,342.49	-	-22,212,628.40
1. Transfer to surplus reserve	-	-	2,049,714.09	-2,049,714.09	-	-
2. Distribution to shareholders	-	-	-	-22,212,628.40	-	-22,212,628.40
4. Balance at the end of the period	277,657,855.00	42,299,204.72	109,260,523.91	300,357,422.85	34,242,884.83	763,817,891.31

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	283,563,275.86	369,743,003.40
Return of taxes and levies	271,100.00	-
Cash received relating to other operating activities	12,907,412.08	2,402,256.28
Sub-total of cash inflow	<u>296,741,787.94</u>	<u>372,145,259.68</u>
Cash paid for purchase of goods and acceptance of services	123,532,355.00	265,664,403.51
Cash paid to and on behalf of employees	52,826,502.09	41,484,508.80
Payment of taxes and levies	21,787,507.02	23,339,981.59
Cash paid relating to other operating activities	49,413,976.62	27,832,368.52
Sub-total of cash outflow	<u>247,560,340.73</u>	<u>358,321,262.42</u>
Net cash flow from operating activities	<u>49,181,447.21</u>	<u>13,823,997.26</u>
2. Cash flows from investing activities:		
Cash received from return of investments	10,467,600.00	4,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	2,432,632.41	982,205.65
Cash received relating to other investing activities	5,563,700.00	268,207.13
Sub-total of cash inflow	<u>18,463,932.41</u>	<u>5,250,412.78</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	57,502,959.19	34,052,384.60
Net cash paid to acquire subsidiaries and other business entities	-	2,655,381.55
Sub-total of cash outflow	<u>57,502,959.19</u>	<u>36,707,766.15</u>
Net cash flow from investing activities	<u>-39,039,026.78</u>	<u>-31,457,353.37</u>
3. Cash flows from financing activities:		
Cash received from borrowings	111,920,000.00	60,000,000.00
Sub-total of cash inflow	<u>111,920,000.00</u>	<u>60,000,000.00</u>
Cash paid for debt repayments	83,494,153.59	56,500,000.00
Cash paid for distribution of dividends, profit or interest expenses	7,280,675.60	7,929,277.81
Cash paid relating to other financing activities	373,592.23	-
Sub-total of cash outflow	<u>91,148,421.42</u>	<u>64,429,277.81</u>
Net cash flow from financing activities	<u>20,771,578.58</u>	<u>-4,429,277.81</u>
4. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>-359,563.47</u>	<u>-</u>
5. Net increase in cash and cash equivalents	<u>30,554,435.54</u>	<u>-22,062,633.92</u>
Add: Opening balance of cash and cash equivalents	<u>58,609,424.36</u>	<u>76,773,167.14</u>
6. Closing balance of cash and cash equivalents	<u>89,163,859.90</u>	<u>54,710,533.22</u>

BALANCE SHEET OF THE PARENT COMPANY

30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2014 (unaudited)	31 December 2013 (audited)
Current Assets:		
Cash on hand and at bank	31,505,556.17	10,360,957.46
Notes receivable	830,000.00	387,288.00
Accounts receivable	50,462,580.52	43,153,425.67
Prepayments	16,715.23	484,737.71
Dividends receivable	–	5,000,000.00
Other receivables	247,076,803.26	241,125,230.80
Inventories	5,534,474.76	7,056,514.69
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	40,973.33	4,487.16
Total current assets	335,467,103.27	318,040,241.49
Non-current Assets:		
Long-term equity investments	182,159,214.87	177,159,214.87
Fixed assets	8,409,041.43	8,354,001.06
Construction in progress	58,200.00	–
Intangible assets	35,515,338.79	5,442,865.45
Deferred income tax assets	73,244.75	73,244.75
Other non-current assets	6,000,000.00	6,000,000.00
Total non-current assets	232,215,039.84	197,029,326.13
Total Assets	567,682,143.11	515,069,567.62
Current Liabilities:		
Short-term loans	119,000,000.00	99,000,000.00
Accounts payable	5,791,103.57	4,895,911.10
Receipts in advance	11,500.00	78,456.39
Staff costs payable	1,224,428.81	702,555.34
Taxes payable	421,905.01	540,210.21
Interests payable	389,464.42	204,081.42
Dividends payable	22,212,628.40	–
Other payables	6,511,474.28	117,704.40
Other current liabilities	–	800,000.00
Total current liabilities	155,562,504.49	106,338,918.86
Total Liabilities	155,562,504.49	106,338,918.86
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	58,379,450.06
Retained earnings	34,491,369.88	31,102,380.02
Total Shareholders' Equity	412,119,638.62	408,730,648.76
Total Liabilities and Shareholders' Equity	567,682,143.11	515,069,567.62

INCOME STATEMENT OF THE PARENT COMPANY

For the six months ended 30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
1. Revenue	18,184,099.31	18,696,231.23
Less: Operating costs	13,225,541.40	12,580,528.44
Business taxes and surcharges	79,261.50	119,173.47
Selling expenses	212,716.97	203,805.75
General and administrative expenses	3,579,972.95	3,305,405.56
Financial expenses	225,526.94	1,850,389.65
Add: Investment gains	25,000,000.00	57,168.52
Including: Investment gains from associates and jointly controlled entities	-	57,168.52
	<hr/>	<hr/>
2. Operating profit	25,861,079.55	694,096.88
Add: Non-operating income	12,310.00	8,600.00
Less: Non-operating expenses	26,214.86	3,497.85
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3. Total profit	25,847,174.69	699,199.03
Less: Income tax expenses	245,556.43	177,797.94
	<hr/>	<hr/>
4. Net profit	<u>25,601,618.26</u>	<u>521,401.09</u>
5. Earnings per share:	<hr/> <hr/>	<hr/> <hr/>
6. Other comprehensive income	<hr/> <hr/>	<hr/> <hr/>
7. Total comprehensive income	<u>25,601,618.26</u>	<u>521,401.09</u>

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the six months ended 30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

30 June 2014 (unaudited)					
Item	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total shareholders' equity
1. Balance at the end of last year	277,657,855.00	41,590,963.68	58,379,450.06	31,102,380.02	408,730,648.76
2. Balance at the beginning of year	277,657,855.00	41,590,963.68	58,379,450.06	31,102,380.02	408,730,648.76
3. Increase/(decrease) during the period	-	-	-	3,388,989.86	3,388,989.86
(1) Net profit	-	-	-	25,601,618.26	25,601,618.26
(2) Appropriation of profits	-	-	-	-22,212,628.40	-22,212,628.40
1. Distribution to shareholders	-	-	-	-22,212,628.40	-22,212,628.40
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>34,491,369.88</u>	<u>412,119,638.62</u>

30 June 2013 (unaudited)					
Item	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total shareholders' equity
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	-	-	52,140.11	-21,743,367.42	-21,691,227.31
(1) Net profit	-	-	-	521,401.09	521,401.09
(2) Appropriation to profits	-	-	52,140.11	-22,264,768.51	-22,212,628.40
1. Transfer to surplus reserve	-	-	52,140.11	-52,140.11	-
2. Distribution to shareholders	-	-	-	-22,212,628.40	-22,212,628.40
4. Balance at the end of year	<u>277,657,855.00</u>	<u>41,590,963.68</u>	<u>55,849,270.58</u>	<u>8,330,764.67</u>	<u>383,428,853.93</u>

STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

For the six months ended 30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	12,355,314.09	14,030,586.00
Cash received relating to other operating activities	1,756,289.79	17,119,774.77
Sub-total of cash inflow	<u>14,111,603.88</u>	<u>31,150,360.77</u>
Cash paid for purchase of goods and acceptance of services	6,701,724.38	15,439,463.96
Cash paid to and on behalf of employees	2,498,739.18	2,578,814.80
Payment of taxes and levies	1,421,804.00	1,497,000.84
Cash paid relating to other operating activities	8,105,220.77	10,490,773.12
Sub-total of cash outflow	<u>18,727,488.33</u>	<u>30,006,052.72</u>
Net cash flow from operating activities	<u>-4,615,884.45</u>	<u>1,144,308.05</u>
2. Cash flows from investing activities:		
Cash received from return of investments	10,467,600.00	-
Cash received from investment gains	30,000,000.00	35,000,000.00
Cash received relating to other investing activities	-	129,619.47
Sub-total of cash inflow	<u>40,467,600.00</u>	<u>35,129,619.47</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	31,334,791.30	624,471.17
Cash paid for investments	-	29,711,807.49
Net cash paid to acquire subsidiaries and other business entities	-	10,000,000.00
Sub-total of cash outflow	<u>31,334,791.30</u>	<u>40,336,278.66</u>
Net cash flow from investing activities	<u>9,132,808.70</u>	<u>-5,206,659.19</u>
3. Cash flows from financing activities:		
Cash received from borrowings	40,000,000.00	-
Sub-total of cash inflow	<u>40,000,000.00</u>	<u>-</u>
Cash paid for debt repayments	20,000,000.00	-
Cash paid for distribution of dividends, profit or interest expenses	2,998,733.31	3,171,666.70
Cash paid relating to other financing activities	373,592.23	-
Sub-total of cash outflow	<u>23,372,325.54</u>	<u>3,171,666.70</u>
Net cash flow from financing activities	<u>16,627,674.46</u>	<u>-3,171,666.70</u>
4. Effect of changes in foreign exchange rate on cash and cash equivalents	-	-
5. Net increase in cash and cash equivalents	21,144,598.71	-7,234,017.84
Add: Opening balance of cash and cash equivalents	10,360,957.46	31,336,987.85
6. Closing balance of cash and cash equivalents	<u>31,505,556.17</u>	<u>24,102,970.01</u>

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

1. BASIC INFORMATION OF THE COMPANY

The Company was approved by the Document (ZHE SHANG SHI [2004] No. 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 Shibao Holding, Wu Wei Xu (吳偉旭), Wu Lang Yue (吳琅躍), Du Chun Mao (杜春茂) and Chen Wen Hong (陳文洪) 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] No. 22 (證監國合字[2005]22號) issued by the CSRC, 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 Enterprises 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, and sales of automobiles.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS ERRORS OF THE COMPANY

1. Basis of Preparation of Financial Statements

The interim financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises No.32 – Interim Financial Reporting issued by the Ministry of Finance of the PRC.

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 newly published CAS, and since 1 January 2013, the Company had early adopted six specific standards including "CAS No. 2 Long-term Equity Investments", "CAS No. 9 Employee Compensation", "CAS No. 30 Presentation of Financial Statements" and "CAS No.33 Consolidated Financial Statements", which are revised by the Ministry of Finance of the PRC in 2014, and "CAS No. 39 Fair Value Measurements" and "CAS No.40 Joint Arrangement", 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 Group is from 1 January to 31 December.

4. Reporting Currency

The reporting currency is Renminbi (RMB).

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2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS ERRORS 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. **Basis of Preparation 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.

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2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS ERRORS 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;

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

9. Financial Instruments *(continued)*

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

- (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.
- (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.

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) derecognize the financial asset and recognize any associated assets and liabilities if control of the financial asset has not been retained;

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

9. Financial Instruments *(continued)*

(3) Recognition and measurement of transfer of financial assets *(continued)*

- (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 the following two items is recognised in current profit or loss:

- (1) the carrying amount of the financial asset transferred;
- (2) the sum of the consideration received from the transfer and the accumulated fair value adjustments previously recorded in total shareholders' equity.

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 the following two items is recognised in current profit or loss:

- (1) the carrying amount allocated to the part derecognised;
- (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.

(4) Determination of fair value of 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 (excluding accounts receivable)

- (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.

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

9. Financial Instruments *(continued)*

(5) Assessment and provision for impairment on financial assets (excluding accounts receivable) *(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.

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

10. Determination and provision for bad debt for accounts receivable

(1) Individually significant accounts receivable for which separate bad debt provision is made

Basis of individually significant amount	Amounts over RMB1 million (inclusive)
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) Accounts receivable for which collective bad debt provision by group is made

Group name	Method of provisioning for bad debts by groups	Basis of determining the group
Groups of account receivable which are individually insignificant but have significant credit risks	Other method	Accounts receivable which do not exceed RMB1 million and are aged over 1 year, and accounts receivable which do not exceed RMB1 million and are aged within 1 year with no solid evidence that there is any significant change in the recoverability

Explanation for method of provisioning:

Group name	Method of provision
Groups of accounts receivable which are individually insignificant but have significant credit risks	According to the structure of the group of accounts receivable and similar credit risk features (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience of losses and 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.

(3) Individually insignificant accounts receivable 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.

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2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS ERRORS 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

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

Packaging materials are amortised in full when received for use.

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

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.

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.

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2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS ERRORS 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 common control and 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 per the methods as set out in the aforementioned (12) Long-Term Equity Investments.

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

14. Fixed Assets

(1) Recognition 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) Classification of construction in progress

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) Standards and timing for transferring construction in progress into fixed assets

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) Assessment and provision for impairment on construction in progress

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.

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

16. Borrowing Costs

(1) Principles of recognition of borrowing costs capitalization

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 have been incurred;
- 2) borrowing costs have been incurred;
- 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.

(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) Calculation of 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).

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

17. Intangible Assets

(1) Measurement of intangible assets

Intangible assets, including land use rights, patent rights and non-patented technologies, are initially measured at cost.

(2) Estimation of useful lives of intangible assets with definite useful lives

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) Judgement of intangible assets with uncertain useful lives

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) Internal research and development projects

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.

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. Provisions

- 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.
- 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.

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

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 include 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 recognized 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 designed 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.
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; (2) when the Company recognized relevant costs or expenses associated with the reorganization of the payment of the dismissal benefits.

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

20. Employee Benefits *(continued)*

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

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2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS ERRORS 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 Income Tax Assets and Deferred Income Tax Liabilities

1. Deferred income tax assets or deferred income 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 income 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 income 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 income 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 income 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 gain as tax expense or income, excluding income tax arising from:
 - (1) business combination;
 - (2) transactions or items directly recognised in equity.

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2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS ERRORS 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. Significant Accounting Judgments 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 income tax assets

As stated in Note 2 (23) above, deferred income 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 income 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 income 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 income 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 income 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) above, 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

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

25. Significant Accounting Judgments and Estimates (continued)

(3) Provision for decline in value of inventories

As stated in Note 2 (11) above, as at the balance sheet date, the Company's inventories are stated at the lower of cost and net realizable value, provision for diminution in the value of inventories 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 diminution in the value of inventories.

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 taxable turnover	5%
Property tax	On 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, a controlling subsidiary, enjoys the policy of "exempt, credit, refund" for export goods with an export tax refund rate of 17%.

(Note 2): Unless otherwise stated in below "Tax Concession and Approval Documents", the Company and other controlling subsidiaries are subject to a tax rate of 25%.

2. Tax concession and approval documents

- 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, a controlling subsidiary of the Company, was recognized as a high-tech enterprise in 2011 with a valid period from 2011 to 2013. During the period under review, Hangzhou Shibao has applied for re-recognition as a high-tech enterprise. As at the date of this report, the review is in progress. Hangzhou Shibao is adopting a tax rate of 15% for income tax pre-declaration during the period under review.
- 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, a controlling subsidiary of the Company, was recognized as a high-tech enterprise in 2012 with a valid period from 2012 to 2014. During the period under review, Siping Steering is subject to an income tax rate of 15%.

NOTES TO THE FINANCIAL STATEMENTS

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4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

1. Particulars of subsidiaries

(1) Subsidiaries obtained through establishment or investment

Name of subsidiary	Type of subsidiary	Place of registration/business	Business nature	Registered capital '000	Business scope	Investment amount at end of period	% of share-holding	% of voting rights	Whether statements are consolidated	Minority interests
Hangzhou Shibao	Limited liability company	Hangzhou, Zhejiang/China	Production and manufacturing	69,000	Manufacture of steering gear and automotive parts and components	70,461,800.00	100%	100%	Yes	-
Hangzhou New Shibao	Limited liability company	Hangzhou, Zhejiang/China	Production and manufacturing	60,000	Manufacture of power steering system and other components for automobiles	42,000,000.00	70%	70%	Yes	4,822,445.68
Jilin Shibao	Limited liability company	Siping, Jilin/China	Production and manufacturing	30,000	Processing and sale of stamping machinery, manufacture and sales of automotive parts and components, as well as casting and forging	30,000,000.00	100%	100%	Yes	-
Siping Steering (Note 1)	Limited liability company	Siping, Jilin/China	Production and manufacturing	11,000	Manufacture of power steering gears and steering knuckles for sedans	13,250,000.00	100%	100%	Yes	-

(Note 1): On 4 June 2014, the Company entered into an Equity Transfer Agreement with the existing foreign shareholder. According to the prevailing effective Articles of Association of Siping Steering, the Company paid RMB5,000,000 to acquire the 25% equity interests in Siping Steering as held by the foreign shareholder. On 11 June 2014, Siping Steering has completed the relevant industry and commerce registration procedures and has renewed the business license.

(2) Subsidiaries obtained through business combination not under common control

Name of subsidiary	Type of subsidiary	Place of registration/business	Business nature	Registered capital '000	Business scope	Investment amount at end of period	% of share-holding	% of voting rights	Whether statements are consolidated	Minority interests
Beijing Autonics	Limited liability company	Beijing/China	Technology development	10,000	Technology development and sale of electronic equipment etc.	7,000,000.00	70%	70%	Yes	2,210,357.53
Wuhu Sterling	Limited liability company	Wuhu, Anhui/China	Production and manufacturing	22,800	Develop, manufacture and sale of automobile steering systems and related products	19,447,400.00	57.89%	57.89%	Yes	17,023,382.85
Erdos Sterling (Note 1)	Limited liability company	Erdos, Inner Mongolia/China	Production and manufacturing	10,000	Develop, manufacture and sale of automobile steering systems and related products	10,000,000.00	57.89%	57.89%	Yes	-

(Note 1): Wuhu Sterling holds 100% equity interests of Erdos Sterling.

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash on hand and at bank

Item	30 June 2014 (unaudited)			31 December 2013 (audited)		
	Original currency	Conversion rate	Equivalent RMB	Original currency	Conversion rate	Equivalent RMB
Cash:			95,764.59			352,452.51
RMB	-	-	95,764.59	-	-	352,452.51
Bank deposits:			89,068,095.31			58,256,971.85
RMB	-	-	75,288,199.01	-	-	56,283,246.85
US\$	35,333.60	6.1535	217,425.82	21,064.48	6.0969	128,428.03
HK\$	21,539.25	0.8148	17,550.18	21,842.14	0.7862	17,172.95
CHF	55.41	6.8336	387.66	55.41	6.8336	378.65
ECU€	1,613,481.60	8.3946	13,544,532.64	217,100.26	8.4189	1,827,745.37
Other monetary funds:			19,564,788.95			8,340,703.35
RMB	-	-	19,170,200.44	-	-	8,340,703.35
ECU€	47,005.04	8.3946	394,588.51	-	-	-
Total			108,728,648.85			66,950,127.71

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 amounted to RMB18,740,011.76 and RMB824,777.19 represent the security deposits for the issuance of the bank acceptance bills and letter of credit respectively.
- Monetary funds deposited overseas at the end of the period amounted to HKD21,539.25, equivalent to RMB 17,550.18.

2. Notes receivable

(1) Breakdown

Type	30 June 2014 (unaudited)	31 December 2013 (audited)
Bank acceptance bills	98,631,845.26	107,726,195.93
Total	98,631,845.26	107,726,195.93

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Notes receivable (continued)

(2) At the end of the period, the top five largest notes receivable pledged

Issuer	Date of issuance	Due date	Amount
Anhui Da Cheng Automobile Sales Service Co., Ltd. (安徽大成汽車銷售服務有限公司)	2014.02.20	2014.08.19	2,850,000.00
Tianjin FAW Xiali Automobile Co., Ltd. (天津一汽夏利汽車股份有限公司)	2014.02.24	2014.08.24	2,720,000.00
Suzhou Guo Ya Da Automobile Service Co., Ltd. (蘇州國亞達汽車服務有限公司)	2014.03.21	2014.07.22	2,443,600.00
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	2014.04.10	2014.10.10	2,000,000.00
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	2014.04.10	2014.10.10	2,000,000.00
Total			<u>12,013,600.00</u>

(3) Notes receivable converted to accounts receivables because of the drawer's inability to perform, and notes receivable have been endorsed to other parties but not yet expired

At the end of the period, there was no notes receivable converted to accounts receivables because of the drawer's inability to perform.

At the end of the 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
Beijing Yuan Liu Southeast Trading Co., Ltd. (北京源流東南貿易有限公司)	2014.04.22	2014.10.22	5,000,000.00
Hangzhou Yi Wei Automobile Industry Co., Ltd. (杭州益維汽車工業有限公司)	2014.06.04	2014.12.04	4,800,000.00
Foshan City Chan Tong Automobile Trading Co., Ltd. (佛山市禪通汽車貿易有限公司)	2014.05.22	2014.11.22	4,700,000.00
Zhucheng City Red Star Construction Co., Ltd. (諸城市紅星建築有限公司)	2014.04.23	2014.10.23	4,000,000.00
Jiangsu Province Su Shun Group Co., Ltd. (江蘇省蘇舜集團有限公司)	2014.01.15	2014.07.15	2,500,000.00
Total			<u>21,000,000.00</u>

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Accounts receivable

(1) Breakdown by categories

Category	30 June 2014 (unaudited)				31 December 2013 (audited)			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant amount with bad debt provision on individual basis	272,047,624.30	88.29	-	-	252,592,597.66	90.23	-	-
Provision of bad debts based on group								
Individually insignificant amount but significant based on credit risk characteristics	4,761,792.44	1.55	1,169,421.32	24.56	5,144,761.82	1.84	1,257,588.12	24.44
Sub-total by group	4,761,792.44	1.55	1,169,421.32	24.56	5,144,761.82	1.84	1,257,588.12	24.44
Individually insignificant amount with bad debt provision on individual basis	31,315,518.51	10.16	-	-	22,191,629.99	7.93	-	-
Total	308,124,935.25		1,169,421.32		279,928,989.47		1,257,588.12	

The ageing analysis of accounts receivable:

Age	30 June 2014 (unaudited)			31 December 2013 (audited)		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	301,765,997.71	97.94	-	270,959,461.83	96.80	-
1-2 years	4,089,204.39	1.33	4,833.47	5,583,980.77	1.99	16,345.62
2-3 years	282,019.11	0.09	88,096.68	1,300,522.42	0.46	157,317.29
Over 3 years	1,987,714.04	0.64	1,076,491.17	2,085,024.45	0.75	1,083,925.21
Total	308,124,935.25	100.00	1,169,421.32	279,928,989.47	100.00	1,257,588.12

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.

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Accounts receivable (continued)

(1) Breakdown by categories (continued)

At the end of the period, 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 Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司) and others	272,047,624.30	-	-	Individual impairment test showed no risk was expected of balance recover
Total	272,047,624.30	-		

Provision for bad debts by group:

Group name	Carrying amount	Provision for bad debts
Individually insignificant amount but significant based on credit risk characteristics	4,761,792.44	1,169,421.32
Total	4,761,792.44	1,169,421.32

At the end of the period, 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 Chongqing Long Run Automobile Steering Gear Co., Ltd. (重慶龍潤汽車轉向器有限公司) and others	31,315,518.51	-	-	Individual impairment test showed no risk was expected of balance recover
Total	31,315,518.51	-		

(2) Receivables reversed or recovered during the reporting period

Description	Reason for reversal or recovery	Original criteria to recognize the provision for bad debts	Accumulated amount of provision for bad debts before reversal or recovery	Reversed or recovered amount
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	Not expected be recovered	88,166.80	88,166.80
Total			88,166.80	

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Accounts receivable (continued)

(3) Accounts receivable from any shareholders holding 5% (inclusive) or more of the voting rights of the Company during the reporting period

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 top five largest accounts receivable

Name	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable (%)
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	Non related party	42,279,528.02	Within 1 year	13.72
FAW-Car Co., Ltd. (一汽轎車股份有限公司)	Non related party	39,076,992.02	Within 1 year	12.68
Cherry Automobile Co., Ltd. (奇瑞汽車股份有限公司)	Non related party	22,409,859.98	Within 1 year	7.27
Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司)	Non related party	21,231,375.85	Within 1 year	6.89
SAZEH GOSTAR SAIPA CO.	Non related party	18,702,919.97	Within 1 year	6.07
Total		143,700,675.84		46.63

(5) Accounts receivable from related parties

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

4. Other receivables

(1) Breakdown by categories

Category	As at 30 June 2014 (unaudited)				As at 31 December 2013 (audited)			
	Carrying amount Amount	Provision for bad debts (%)	Amount	(%)	Carrying amount Amount	Provision for bad debts (%)	Amount	(%)
Individually significant amount with bad debt provision on individual basis	11,269,000.00	80.88	-	-	12,369,000.00	84.39	-	-
Provision of bad debts based on group								
Individually insignificant amount but significant based on credit risk characteristics	731,981.88	5.25	-	-	880,392.80	6.01	-	-
Sub-total by group	731,981.88	5.25	-	-	880,392.80	6.01	-	-
Individually insignificant amount with bad debt provision on individual basis	1,931,898.82	13.87	-	-	1,407,241.89	9.60	-	-
Total	13,932,880.70		-	-	14,656,634.69		-	-

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Other receivables (continued)

(1) Breakdown by categories (continued)

The ageing analysis of other receivables:

Age	As at 30 June 2014 (unaudited)			As at 31 December 2013 (audited)		
	Carrying amount	Proportion	Provision for	Carrying amount	Proportion	Provision for
	Amount	(%)	bad debts	Amount	(%)	bad debts
Within 1 year	10,673,857.51	76.61	-	10,276,241.89	70.11	-
1-2 years	1,678,539.33	12.05	-	1,816,156.20	12.39	-
2-3 years	1,520,799.00	10.91	-	2,501,200.00	17.07	-
Over 3 years	59,684.86	0.43	-	63,036.60	0.43	-
Total	13,932,880.70	100.00	-	14,656,634.69	100.00	-

At the end of the period, individually significant amount with bad debt provision on individual basis:

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason
Other receivables of security deposit from Yiwu Economic & technology Development Zone Administrative Committee (義烏經濟技術開發區管理委員會) and others	11,269,000.00	-	-	Individual impairment test showed no risk was expected of balance recover
Total	11,269,000.00	-	-	

Provision for bad debts by group:

Group name	Carrying amount	Provision for bad debts
Individually insignificant amount but significant based on credit risk characteristics	731,981.88	-
Total	731,981.88	-

At the end of the period, individually insignificant amount with bad debt provision on individual basis:

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Other receivables of expenses of additional A Shares issue, individual imprest and others	1,931,898.82	-	-	Individual impairment test showed no risk was expected of balance recover
Total	1,931,898.82	-	-	

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Other receivables (continued)

(2) Other receivables from any shareholders holding 5% (inclusive) or more of the voting rights of the Company during the reporting period

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

(3) The top five largest other receivables

Name	Relationship with the Company	Carrying amount	Ageing	Percentage of total other receivables (%)
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	63.65
Jilin Tiedong Economic Development Zone Administrative Committee (吉林鐵東經濟開發區管理委員會)	Non related party	2,400,000.00	1-2 years, 2-3 years	17.23
Sping City Dong Da Industry & trading Co., Ltd. (四平市東達工貿有限公司)	Non related party	490,000.00	1-2 years	3.52
Expenses related to additional A Shares issue	Non related party	373,592.23	Within 1 year	2.68
Zheng Fu Ying (虞廷春)	Non related party	131,597.00	Within 1 year	0.94
Total		12,264,189.23		88.02

(4) Other receivables from related parties

As at the end of the period, there was no other receivables from any related parties.

5. Prepayments

(1) Ageing analysis of prepayments

Ageing	As at 30 June 2014 (unaudited) Carrying amount		As at 31 December 2013 (audited) Carrying amount	
	Amount	(%)	Amount	(%)
Within 1 year	4,326,799.91	87.57	5,922,199.46	89.11
1-2 years	444,995.51	9.01	556,216.43	8.37
2-3 years	169,020.15	3.42	167,167.08	2.52
Total	4,940,815.57		6,645,582.97	

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Prepayments (continued)

(2) The top five largest prepayments

Name	Relationship with the Company	Amount	Ageing	Reason for unsettlement
National Grid Jilin Province Electricity 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	1,046,314.64	Within 1 year	Prepaid for electricity bills
Sinopec Zhejiang Hangzhou Sub-company (中國石油化工有限公司浙江杭州石油分公司)	Non related party	608,033.51	Within 1 year	Prepaid for gas bills
Siping Electricity Bureau (四平電業局)	Non related party	276,018.90	Within 1 year	Prepaid for electricity bills
Yuhuan Sheng Da Automobile & Motorcycle Components Industry Co., Ltd. (北京丹中商貿有限責任公司)	Non related party	148,500.00	Within 1 year	Prepaid for materials
ENGIS (HONG KONG) LTD.	Non related party	92,041.60	Within 1 year	Prepaid for materials
Total		<u>2,170,908.65</u>		

(3) Prepayments to any shareholders holding 5% (inclusive) or more of the voting rights of the Company during the reporting period

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

6. Inventories

(1) Breakdown

Item	As at 30 June 2014 (unaudited)			As at 31 December 2013 (audited)		
	Carrying amount	Provision for decline in price	Book value	Carrying amount	Provision for decline in price	Book value
Raw materials	69,829,460.83	-	69,829,460.83	70,044,657.26	-	70,044,657.26
Work-in-progress	24,622,017.54	-	24,622,017.54	30,926,489.81	-	30,926,489.81
Finished goods	91,991,516.05	1,199,543.49	90,791,972.56	80,389,267.97	964,857.80	79,424,410.17
Low-value consumables	760,020.81	-	760,020.81	510,905.49	-	510,905.49
Total	<u>187,203,015.23</u>	<u>1,199,543.49</u>	<u>186,003,471.74</u>	<u>181,871,320.53</u>	<u>964,857.80</u>	<u>180,906,462.73</u>

(2) Provision for decline in price of inventories

Item	Balance at the beginning of the period	Provision for the period	Decrease during the period		Balance at the end of the period
			Reversal	Write-off (Note)	
Finished goods	964,857.80	1,052,906.66	-	818,220.97	1,199,543.49
Total	<u>964,857.80</u>	<u>1,052,906.66</u>	<u>-</u>	<u>818,220.97</u>	<u>1,199,543.49</u>

(Note): Transfer out from provision for decline in price of inventories due to the sales of inventories during the period.

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Inventories (continued)

(2) Provision for decline in price of inventories (continued)

Description of the basis of and reasons for provision and reversal of provision for decline in price of inventories during the period as well as the proportion of written back to the closing balance of inventory of an item during the period

Item	Basis of provision for decline in price of inventories	Reasons for reversal of provision for decline in price of inventories during the period	Proportion of written back to 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	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Long-term equity investments held for sale (Note)	-	10,467,600.00
Total	<u>-</u>	<u>10,467,600.00</u>

(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 Group 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. The Company has received the consideration for the equity transfer on 27 March 2014.

8. Other current assets

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Value added tax recoverable	13,797,296.43	18,073,492.79
Prepaid expenses	441,709.27	609,048.24
Total	<u>14,239,005.70</u>	<u>18,682,541.03</u>

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Fixed assets

Item	As at 1 January 2014 (audited)	Increase during the period	Decrease during the period	As at 30 June 2014 (unaudited)
1) Sub-total of cost	652,607,935.01	14,343,960.22	3,518,771.87	663,433,123.36
Including:				
Buildings and structures	187,794,019.16	1,105,001.98	–	188,899,021.14
Equipment	427,403,116.79	11,442,434.67	3,201,300.92	435,644,250.54
Transportation vehicles	22,621,451.08	1,368,473.27	216,365.95	23,773,558.40
Office equipment and others	14,789,347.98	428,050.30	101,105.00	15,116,293.28
		Increase during the period	Provision during the period	Decrease during the period
2) Sub-total of accumulated depreciation	215,514,091.64	–	24,686,217.41	1,129,443.91
Including:				
Buildings and structures	35,840,971.04	–	2,704,075.89	–
Equipment	157,205,058.52	–	19,852,461.63	900,631.37
Transportation vehicles	13,972,062.74	–	1,313,982.44	184,256.77
Office equipment and others	8,495,999.34	–	815,697.45	44,555.77
3) Sub-total of net book value	437,093,843.37			424,362,258.22
Including:				
Buildings and structures	151,953,048.12			150,353,974.21
Equipment	270,198,058.27			259,487,361.76
Transportation vehicles	8,649,388.34			8,671,769.99
Office equipment and others	6,293,348.64			5,849,152.26
4) Sub-total of provision	1,071,242.00			1,071,242.00
Including:				
Buildings and structures	825,717.39			825,717.39
Equipment	245,524.61			245,524.61
5) Total of carrying value	436,022,601.37			423,291,016.22
Including:				
Buildings and structures	151,127,330.73			149,528,256.82
Equipment	269,952,533.66			259,241,837.15
Transportation vehicles	8,649,388.34			8,671,769.99
Office equipment and others	6,293,348.64			5,849,152.26

During the reporting period, amount of depreciation was RMB24,686,217.41. During the reporting period, the carrying value of RMB9,744,634.95 was transferred from construction in progress to fixed assets.

As at the end of the period, no fixed assets had not obtained ownership certificates.

Buildings and constructions with a carrying value of RMB5,737,905.94, 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..

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Construction in progress

(1) Breakdown

Item	As at 30 June 2014 (unaudited)			As at 31 December 2013 (audited)		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
The precious casting and processing of automotive components project	23,311,683.86	-	23,311,683.86	24,014,211.73	-	24,014,211.73
The increase of production of power automotive steering gears project	22,509,873.91	-	22,509,873.91	15,544,374.31	-	15,544,374.31
Capacity expansion project of Hangzhou New Shibao	9,302,275.24	-	9,302,275.24	9,568,381.01	-	9,568,381.01
The research and development, examination and inspection and trial production centre of automotive steering gear system project	68,803.42	-	68,803.42	111,538.46	-	111,538.46
Other sundry projects	578,588.70	-	578,588.70	988,401.79	-	988,401.79
Total	55,771,225.13	-	55,771,225.13	50,226,907.30	-	50,226,907.30

(2) Movements of major construction in progress projects

Project name	Budget	Balance at		Transfer to fixed assets	Percentage of invested amount to budget (%)
		the beginning of the period	Increase during the period		
The precious casting and processing of automotive components project	235,364,100.00	24,014,211.73	269,411.45	971,939.32	14.88
The increase of production of power automotive steering gears project	181,234,700.00	15,544,374.31	12,550,694.55	5,585,194.95	51.95
Capacity expansion project of Hangzhou New Shibao	-	9,568,381.01	269,921.58	536,027.35	-
The research and development, examination and inspection and trial production centre of automotive steering gear system project	45,000,000.00	111,538.46	1,404,165.76	1,446,900.80	13.15
Other sundry projects	-	988,401.79	794,759.44	1,204,572.53	-
Total	461,598,800.00	50,226,907.30	15,288,952.78	9,744,634.95	

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Construction in progress (continued)

(2) Movements of major construction in progress projects (continued)

Project name	Accumulated amount of capitalized interests	Including: 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	2,898,882.85	155,306.65	7.76	Internal fund, Bank loans	23,311,683.86
The increase of production of power automotive steering gears project	2,957,831.01	391,617.96	6.02	Internal fund, Proceeds, Bank loans	22,509,873.91
Capacity expansion project of Hangzhou New Shibao	-	-	-	Internal fund	9,302,275.24
The research and development, examination and inspection and trial production centre of automotive steering gear system project	-	-	-	Internal fund	68,803.42
Other sundry projects	-	-	-	Internal fund	578,588.70
Total	5,856,713.86	546,924.61			55,771,225.13

(3) Progress of major construction in progress projects

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

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Intangible assets

Item	As at			As at 30 June 2014 (unaudited)
	1 January 2014 (audited)	Increase during the period	Decrease during the period	
1) Sub-total of cost	136,740,912.80	30,550,870.09	–	167,291,782.89
Land use right	84,362,290.09	30,480,773.00	–	114,843,063.09
Patented technology	1,281,666.67	–	–	1,281,666.67
Non-patented technology	48,696,372.12	–	–	48,696,372.12
Software	2,400,583.92	70,097.09	–	2,470,681.01
2) Sub-total of accumulated amortization	25,633,990.86	4,892,607.46	–	30,526,598.32
Land use right	11,451,869.26	1,208,683.06	–	12,660,552.32
Patented technology	405,861.03	64,083.32	–	469,944.35
Non-patented technology	12,876,382.97	3,439,580.28	–	16,315,963.25
Software	899,877.60	180,260.80	–	1,080,138.40
3) Sub-total of net book value	111,106,921.94	25,658,262.63	–	136,765,184.57
Land use right	72,910,420.83	29,272,089.94	–	102,182,510.77
Patented technology	875,805.64	-64,083.32	–	811,722.32
Non-patented technology	35,819,989.15	-3,439,580.28	–	32,380,408.87
Software	1,500,706.32	-110,163.71	–	1,390,542.61
4) Total of carrying value	111,106,921.94	25,658,262.63	–	136,765,184.57
Land use right	72,910,420.83	29,272,089.94	–	102,182,510.77
Patented technology	875,805.64	-64,083.32	–	811,722.32
Non-patented technology	35,819,989.15	-3,439,580.28	–	32,380,408.87
Software	1,500,706.32	-110,163.71	–	1,390,542.61

During the period, amount of amortization was RMB4,892,607.46.

Land use rights with a carrying value of RMB7,029,943.96, 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..

12. Goodwill

Name of investee or item generating goodwill	As at			As at 30 June 2014 (unaudited)	Impairment provision at the end of the period
	1 January 2014 (audited)	Increase during the period	Decrease during the period		
Wuhu Sterling	4,694,482.34	–	–	4,694,482.34	–
Total	4,694,482.34	–	–	4,694,482.34	–

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.

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets and deferred income tax liabilities not presented on a net basis after offsetting

Recognized deferred income tax assets and deferred income tax liabilities

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Deferred income tax assets:		
Provision of impairment of assets	204,711.09	217,936.11
Deductible losses	3,025,069.66	3,877,330.69
Warranty expenses	545,116.07	559,794.26
Sub-total	<u>3,774,896.82</u>	<u>4,655,061.06</u>
Deferred income tax liabilities:		
Adjustment to fair value of the business combination not under the common control	8,640,247.57	9,104,181.29
Sub-total	<u>8,640,247.57</u>	<u>9,104,181.29</u>

Unrecognized deferred income tax assets

Item	Balance at the end of the period	Balance at the beginning of the period
Deductible losses	62,034,595.67	49,472,984.93
Total	<u>62,034,595.67</u>	<u>49,472,984.93</u>

Taxable differences and deductible difference

Item	Temporary difference As at the end of the period	As at the beginning of period
Taxable differences		
Adjustment to fair value of the business combination not under the common control	34,560,990.45	36,416,725.16
Sub-total	<u>34,560,990.45</u>	<u>36,416,725.16</u>
Deductible difference		
Provision of impairment of assets	1,169,421.32	1,257,588.12
Warranty expenses	3,628,172.31	3,731,961.72
Deductible losses	12,100,278.62	15,509,322.75
Sub-total	<u>16,897,872.25</u>	<u>20,498,872.59</u>

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Provision of impairment of assets

Item	As at	Increase during the period	Decrease during the period		As at
	1 January 2014 (audited)		Reversal	Write-off	30 June 2014 (unaudited)
Provision for bad debts	1,257,588.12	–	88,166.80	–	1,169,421.32
Provision for decline in price of inventories	964,857.80	1,052,906.66	–	818,220.97	1,199,543.49
Provision of impairment of fixed assets	1,071,242.00	–	–	–	1,071,242.00
Total	3,293,687.92	1,052,906.66	88,166.80	818,220.97	3,440,206.81

15. Other non-current assets

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Prepaid for purchase of long term assets	26,294,389.44	16,743,120.05
Security deposit to fulfill the contract	6,000,000.00	6,000,000.00
Total	32,294,389.44	22,743,120.05

16. Short-term loans

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Pledged loans	–	18,750,000.00
Secured loans	24,175,846.41	17,000,000.00
Guaranteed loans	239,000,000.00	199,000,000.00
Total	263,175,846.41	234,750,000.00

Annual interest rate of the above short-term loans is 5.60% to 6.30%.

17. Notes payable

Type	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Bank acceptance bills	47,188,600.00	39,542,300.00
Total	47,188,600.00	39,542,300.00

Amount of 47,188,600.00 will be due in the next account year.

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Accounts payable

(1) The ageing analysis of accounts payable

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Within 1 year	184,168,475.34	173,184,660.46
1-2 years	6,364,326.21	4,718,684.74
2-3 years	1,135,614.08	2,730,595.95
Over 3 years	2,669,653.04	1,408,790.37
Total	194,338,068.67	182,042,731.52

(2) Accounts payable to any shareholders holding 5% (inclusive) or more of the voting rights of the Company during the reporting period

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) Large accounts payable aged over 1 year

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

19. Receipts in advance

(1) The ageing analysis of receipts in advance

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Within 1 year	3,057,012.57	3,639,497.96
1-2 years	573,789.39	952,052.98
Total	3,630,801.96	4,591,550.94

(2) Receipts in advance from any shareholders holding 5% (inclusive) or more of the voting rights of the Company during the reporting period

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

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Staff costs payable

Item	As at			As at
	1 January 2014 (audited)	Increase during the period	Decrease during the period	30 June 2014 (unaudited)
Salaries, bonuses, allowances and subsidies	6,319,174.76	41,693,419.10	41,995,288.31	6,017,305.55
Staff welfare		3,666,280.73	2,804,804.37	861,476.36
Social insurance	100,108.85	7,069,288.96	7,065,072.63	104,325.18
Including: Medical insurance	39,680.55	2,644,042.58	2,642,494.96	41,228.17
Basic pension insurance	48,006.62	3,809,484.41	3,807,300.22	50,190.81
Unemployment insurance	6,900.92	277,132.06	276,862.87	7,170.11
Work injury insurance	1,380.21	142,212.86	142,159.05	1,434.02
Maternity insurance	4,140.55	196,417.05	196,255.53	4,302.07
Housing funds	-	256,815.00	256,815.00	-
Others	515,797.68	889,493.57	704,521.78	700,769.47
Including: Labour union funds and employee education funds	515,797.68	685,279.62	581,011.59	620,065.71
Total	6,935,081.29	53,575,297.36	52,826,502.09	7,683,876.56

As at the end of the period, there was no amount in arrears, non-monetary welfare, and compensation for termination of labor relations.

Balance of salaries, bonuses, allowances and subsidies as at the end of the period is planned to be settled in the next accounting period; balance of social insurance will be paid in July 2014.

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.

21. Taxes payable

Item	As at	As at
	30 June 2014 (unaudited)	31 December 2013 (audited)
Value added tax	441,241.06	1,686,464.54
Corporate income tax	3,811,442.39	3,197,417.43
Individual income tax	195,115.54	167,954.46
Urban maintenance and construction tax	232,497.26	640,245.85
Others	438,065.35	750,218.81
Total	5,118,361.60	6,442,301.09

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. Interests payable

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Interest of long-term borrowings with periodic payments of interest and return of principal at maturity	1,074,846.66	1,074,846.66
Interests payable for short-term loans	662,612.93	424,168.26
Interests payable for long-term borrowings due in one year	9,386.67	9,386.67
Total	<u>1,746,846.26</u>	<u>1,508,401.59</u>

23. Dividends payable

Name	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
PROMISED LAND VENTURES LLC (Note 1)	750,000.00	–
Shibao Holding (Note 2)	13,230,977.84	–
Zhang Shi Quan (Note 2)	844,530.56	–
Public shareholders of A Shares (Note 2)	1,200,000.00	–
Shareholders of H Shares (Note 2)	6,937,120.00	–
Total	<u>22,962,628.40</u>	<u>–</u>

(Note 1): PROMISED LAND VENTURES LLC was the foreign shareholder of Siping Steering. During the period, the Company has completed the acquisition of the equity interests held by the foreign shareholder of Siping Steering. As at the end of the period, the related dividends has been paid.

(Note 2): During the period, the Company's annual dividends distribution proposal for 2013 was approved at the shareholders' meeting but not distributed.

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. Other payables

(1) Breakdown

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Considerations of equity interests transfer payable to PROMISED LAND VENTURES LLC (Note)	5,000,000.00	–
Payable of temporary receipts	1,411,538.94	1,064,440.41
Security deposits	1,315,050.00	156,250.00
Labour service company management fees	292,929.37	301,696.91
Others	533,038.96	376,252.00
Total	8,552,557.27	1,898,639.32

(Note): Details of the considerations of equity interests transfer payable to PROMISED LAND VENTURES LLC can be referred to the announcement “Zhejiang Shibao: Announcement for H Shares” of the Company published on 5 June 2014 on the website of CNINF (www.cninfo.com.cn).

(2) Other payables to any shareholders holding 5% (inclusive) or more of the voting rights of the Company during the reporting period

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) Large other payables aged over 1 year

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	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Long-term borrowings due within one year	13,050,400.00	13,050,400.00
Total	13,050,400.00	13,050,400.00

(2) Long-term borrowings due within one year

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Guaranteed loans (Note 1)	4,000,000.00	4,000,000.00
Special funds for treasury bonds (Note 2)	250,400.00	250,400.00
Other loans (Note 3)	8,800,000.00	8,800,000.00
Total	13,050,400.00	13,050,400.00

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

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(2) Long-term borrowings due within one year (continued)

(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, for a term of fifteen years, with a grace period of four years. The remaining RMB250,400,000 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 Jilin Tiedong Economic Development Zone in Siping for a subsidiary, Jilin Shibao, to expand production.

No amounts which were past due but were granted with extensions among the long-term borrowings due within one year.

The top five largest long-term borrowings due within one year

Issuer	Commencement date	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	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	4,000,000.00
Special funds for treasury bonds	2002.01.01		RMB	5.00	250,400.00	250,400.00
Total					13,050,400.00	13,050,400.00

26. Other current liabilities

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Deferred income - assets related government grants (Note)	3,993,643.77	3,266,710.41
Accrued expenses	7,119,729.51	6,667,596.18
Total	11,113,373.28	9,934,306.59

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

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Long-term borrowings

(1) Breakdown

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Special funds for treasury bonds (Note)	2,830,000.00	2,830,000.00
Total	2,830,000.00	2,830,000.00

(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.

(2) The top five largest long-term borrowings

Issuer	Commencement date	Maturity date	Currency	Interest rate (%)	Amount at the end of the period	Amount at the beginning of the period
Special funds for treasury bonds	2005.05.10	2020.12.31	RMB	5.00%	2,830,000.00	2,830,000.00
Total					2,830,000.00	2,830,000.00

28. Other non-current liabilities

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Deferred income - assets related government grants	29,063,784.52	26,093,228.66
Total	29,063,784.52	26,093,228.66

Liabilities relating to government grants:

Item	Balance at the beginning of the period	Increase during the period	Amount included in non-operating income during the period	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	23,242,500.00	-	1,495,000.00	21,747,500.00	Assets related
Subsidy funds for the precious casting and processing of automotive components project	4,741,918.24	-	51,480.20	4,690,438.04	Assets related
Special funds for establishment of a platform for public services provided in foreign trading	1,375,520.83	-	86,875.02	1,288,645.81	Assets related
Industry pooling funds key innovation projects supporting funds	-	5,452,000.00	121,155.56	5,330,844.44	Assets related
Total	29,359,939.07	5,452,000.00	1,754,510.78	33,057,428.29	
Including: Transfer to other current liabilities	3,266,710.41	-	-	3,993,643.77	

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Share capital

	As at 1 January 2014 (audited)	Issue of new shares	Movement during the period			Sub-total	As at 30 June 2014 (unaudited)
			Bonus shares	Transfer from reserves	Others		
Total shares	277,657,855.00	-	-	-	-	-	277,657,855.00

30. Capital reserve

Item	As at 1 January 2014 (audited)	Increase during the period	Decrease during the period	As at 30 June 2014 (unaudited)
Share premium	35,854,815.68	-	-	35,854,815.68
Other capital reserve	6,444,389.04	-	2,250,000.00	4,194,389.04
Total	42,299,204.72	-	2,250,000.00	40,049,204.72

31. Surplus reserve

Item	As at 1 January 2014 (audited)	Increase during the period	Decrease during the period	As at 30 June 2014 (unaudited)
Statutory reserve funds	113,899,265.72	-	-	113,899,265.72
Total	113,899,265.72	-	-	113,899,265.72

32. Retained earnings

Item	Amount
Retained earnings at end of last year before adjustment	309,696,780.40
Retained earnings at beginning of the year after adjustment	309,696,780.40
Add: Net profit attributable to equity holders of the Parent	27,781,320.27
Dividends payable	22,212,628.40
Retained earnings at the end of the period	315,265,472.27

33. Revenue and cost of sales

(1) Revenue and cost of sales

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Revenue from main business	393,740,233.75	311,556,209.91
Revenue from other business	939,710.25	2,193,630.46
Cost of sales	286,843,808.96	228,227,679.02

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. Revenue and cost of sales (continued)

(2) Main business (by sectors)

Sector	30 June 2014 (unaudited)		30 June 2013 (unaudited)	
	Revenue	Cost of sales	Revenue	Cost of sales
Automobile components and spare parts manufacture	393,740,233.75	286,247,804.94	311,556,209.91	227,714,869.35
Total	393,740,233.75	286,247,804.94	311,556,209.91	227,714,869.35

(3) Main business (by products)

Product	30 June 2014 (unaudited)		30 June 2013 (unaudited)	
	Revenue	Cost of sales	Revenue	Cost of sales
Power rack-and-pinion steering gears	184,732,364.63	124,515,777.23	110,322,038.13	80,461,622.08
Power recirculating ball steering gears and its components	112,410,909.63	87,056,823.48	110,788,712.53	81,184,127.68
Steering knuckles	50,039,337.48	32,514,676.01	44,324,042.32	28,578,706.21
Spare parts and others	46,557,622.01	42,160,528.22	46,121,416.93	37,490,413.38
Total	393,740,233.75	286,247,804.94	311,556,209.91	227,714,869.35

(4) Revenue from the top five largest customers

Name	Revenue from main business	Proportion to total revenue (%)
FAW-Car Co., Ltd. (一汽轎車股份有限公司)	81,684,413.72	20.70
SAZEH GOSTAR SAIPA CO.	59,476,268.29	15.07
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	48,416,060.58	12.27
Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司)	37,537,018.26	9.51
Cherry Automobile Co., Ltd. (奇瑞汽車股份有限公司)	22,032,992.92	5.58
Total	249,146,753.77	63.13

34. Business taxes and surcharges

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Urban maintenance and construction tax	1,318,467.64	1,065,344.99
Education surcharge	953,085.66	774,542.28
Others	-	24,102.50
Total	2,271,553.30	1,863,989.77

Details of the tax rates are set out in Note 3 to the financial statements "Taxation".

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Selling expenses

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Transportation cost	9,330,615.03	6,741,106.53
Warranty fee	6,153,026.76	3,443,335.20
Wages, welfare and bonuses	3,508,515.89	3,257,758.87
Travelling expenses	1,131,658.67	1,599,155.58
Agent fee	1,339,871.57	–
Entertainment charge	1,225,422.32	675,414.42
Depreciation of fixed assets	248,133.44	263,398.89
Others	2,324,750.87	2,472,098.70
Total	25,261,994.55	18,452,268.19

36. General and administrative expenses

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Wages, welfare and bonuses	14,620,115.20	11,041,747.65
Research and development expenses	14,121,969.06	8,999,412.85
Office cost	3,371,801.29	3,023,415.48
Professional service fee	1,124,981.68	1,033,290.11
Depreciation of fixed assets	2,326,118.70	2,399,729.14
Amortization of intangible assets	4,821,786.52	2,516,922.68
Other taxation	2,572,814.63	1,466,117.80
Travelling expenses	1,176,983.09	1,031,129.74
Entertainment charge	880,303.27	417,366.75
Others	709,437.15	1,890,990.66
Total	45,726,310.59	33,820,122.86

37. Financial expenses

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Interest expenses	7,519,120.27	5,327,474.96
Interest income	-302,143.56	-268,207.13
Others	575,483.49	15,182.48
Including: Net exchange gains and losses	359,563.47	–
Total	7,792,460.20	5,074,450.31

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. Investment gains

(1) Breakdown

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Investment gains from long-term equity investments under equity method of accounting	-	-438,462.92
Others	-	11,092,596.72
Total	-	10,654,133.80

(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	-	-438,462.92	The investee has been consolidated in the Company's financial statements from the current period
Total	-	-438,462.92	

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

39. Assets impairment losses

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Bad debts losses	-88,166.80	-
Provision for inventories losses	1,052,906.66	-
Total	964,739.86	-

40. Non-operating income

(1) Breakdown

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)	Amount recognized as non-recurring gain and loss during the period
Total gains from disposal of non-current assets	49,836.15	109,251.09	49,836.15
Including: Gains from disposal of fixed assets	49,836.15	109,251.09	49,836.15
Government grants	3,553,610.78	1,621,480.20	3,553,610.78
Others	97,001.00	282,923.58	97,001.00
Total	3,700,447.93	2,013,654.87	

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Non-operating income (continued)

(2) Government grants recognized as gain and loss during the period

Item	Balance for the current period	Balance for the corresponding period last year	Asset related/ revenue related	Belong to non-recurring gain and loss
Special funds for adjustment and improvement project for traditional industry bases including the Northeast Area (Note 1)	1,495,000.00	1,495,000.02	Asset related	Yes
Subsidy funds for the precious casting and processing of automotive components project (Note 2)	51,480.20	51,480.18	Asset related	Yes
Special funds for establishment of a platform for public services provided in foreign trading (Note 3)	86,875.02	-	Asset related	Yes
Industry pooling funds for key innovation projects subsidy funds (Note 4)	121,155.56	-	Asset related	Yes
Incentive funds for enterprises' investment in R&D (Note 5)	213,600.00	-	Revenue related	Yes
Incentive funds for advanced industrial enterprises (Note 6)	406,200.00	-	Revenue related	Yes
Subsidy funds for advanced technological innovation enterprises (Note 7)	323,500.00	-	Revenue related	Yes
Incentive funds in respect of land use tax in cities and towns (Note 8)	271,100.00	-	Revenue related	Yes
Subsidy funds for undertaking industrial transfer projects and individual equipment investment (Note 9)	111,700.00	-	Asset related	Yes
Subsidy funds for cooperative projects among industries, universities and research institutes (Note 10)	-	75,000.00	Revenue related	Yes
Others	473,000.00	-	Revenue related	Yes
Total	3,553,610.78	1,621,480.20		

(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 Establishment of a Platform 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).

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Non-operating income (continued)

(2) Government grants recognized as gain and loss during the period (continued)

(Note 4): "Notice of Granting of Subsidy Funds for Hangzhou City Industry Pooling Funds for Key Innovation Projects 2013"(《關於下達2013年杭州市工業統籌資金重大創新等項目資助資金的通知》)(Hang Jing Kai Jing (2014) No. 102) ((杭經開經[2014]102號)) by Economic and Technological Development Zone Branch of Economy Development Bureau and Finance Bureau, Hangzhou (杭州經濟技術開發區經濟發展局、杭州經濟技術開發區財政局).

(Note 5): "Notice of the publication of Enterprises being Awarded Incentive Funds for their Investment in R&D 2012"(《關於公佈2012年度企業研發投入資助名單的通知》)(Hang Jing Kai Gan Fa (2013) No. 306) (杭經開管發[2013]306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 Advanced Industrial Enterprises being Awarded Incentive Funds 2013"(《關於對2013年度先進工業企業予以表彰獎勵的通報》)(Hang Jing Kai Gan Fa (2014) No. 36) (杭經開管發[2014]36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 7): "Notice of the publication of Advanced Technological Innovation Enterprises (Entities) being Awarded Incentive Funds 2013"(《關於對2013年度科技創新先進企業(單位)予以表彰獎勵的通報》)(Hang Jing Kai Gan Fa (2014) No. 35) (杭經開管發[2014]35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 the publication of 'Measures for Implementation of Incentive Funds Scheme in respect of Land Use Tax in Cities and Town within Wuhu Economic and Technological 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 the Management Committee of Wuhu Economic and Technological Development Zone (蕪湖經濟技術開發區管委會).

(Note 9): "Publicity of Subsidy Funds for Undertaking Industrial Transfer Projects and Individual Equipment Investment" (《關於承接產業轉移項目和單台設備投資補助的公示》) by the Economy and Information Bureau of Wuhu City (蕪湖市經信委) dated 24 October 2013.

(Note 10): "Notice of Granting of Subsidy Funds for Cooperative Projects among Industries, Universities and Research Institutes in the Zone 2012"(《關於下達2012年度區級產學研合作項目資助資金的通知》)(Hang Jing Kai Jing (2013) No. 23, Hang Jing Kai Cai (2013) No. 26) (杭經開經[2013]23號、杭經開財[2013]26號) by Economic and Technological Development Zone Branch of Economy Development Bureau and Finance Bureau, Hangzhou (杭州經濟技術開發區經濟發展局、杭州經濟技術開發區財政局).

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. Non-operating expenses

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)	Amount recognized as non-recurring gain and loss during the period
Total losses from disposal of non-current assets	6,531.70	4,563.81	6,531.70
Including: Losses from disposal of fixed assets	6,531.70	4,563.81	6,531.70
Donations	–	10,000.00	–
Water conservancy fund	281,006.32	214,588.73	–
Others	77,276.71	1,114,180.62	77,276.71
Total	364,814.73	1,343,333.16	

42. Income tax expenses

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Current income tax calculated according to tax law and relevant provisions	5,280,385.23	4,535,560.28
Adjustment of deferred income tax	416,230.52	-314,244.87
Total	5,696,615.75	4,221,315.41

During the period, no provision for Hong Kong profits tax has been made as the Company and its subsidiaries had no profits generated in or arising from Hong Kong.

43. 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	
	Current period	Corresponding period of last year	Current period	Corresponding period of last year
Net profits attributable to the ordinary shareholders of the Company	0.10	0.13	0.10	0.13
Net profits after deducting non-recurring gains and losses attributable to the ordinary shareholders of the Company	0.09	0.08	0.09	0.08

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(2) Calculations of basic earnings per share

Item	Number	Current period
Net profits attributable to the ordinary shareholders of the Company	A	27,781,320.27
Non-recurring gains and losses	B	3,141,069.28
Net profits after deducting non-recurring gains and losses attributable to the ordinary shareholders of the Company	C=A-B	24,640,250.99
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 outstanding ordinary shares	$L=D+E+F \times G/K-H \times I/K-J$	277,657,855.00
Basic earnings per share	$M=A/L$	0.10
Basic earnings after deducting non-recurring gains and losses per share	$N=C/L$	0.09

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

44. Notes to the statement of cash flows

(1) Cash received relating to other operating activities

Item	Amount
Recovery of security deposits including banker's acceptances	8,340,703.35
Receipt of government grants which are revenue related	1,416,300.00
Interest income	302,143.56
Others	2,848,265.17
Total	12,907,412.08

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

44. Notes to the statement of cash flows (continued)

(2) Cash paid relating to other operating activities

Item	Amount
Cash paid as selling expenses	19,105,764.67
Cash paid as general and administrative expenses	10,404,627.42
Payment of security deposits including banker's acceptances	19,564,788.95
Others	338,795.58
Total	49,413,976.62

(3) Cash received relating to other investing activities

Item	Amount
Receipt of government grants which are asset related	5,563,700.00
Total	5,563,700.00

(4) Cash paid relating to other financing activities

Item	Amount
Expenses related to additional A Shares issue	373,592.23
Total	373,592.23

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

45. Supplemental information on the statement of cash flows

(1) Supplemental information on the statement of cash flows

Supplemental information	30 June 2014 (unaudited)	30 June 2013 (unaudited)
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	23,458,093.99	33,414,470.32
Add: Provision for impairment to assets	964,739.86	-
Depreciation of fixed assets, oil and gas assets and production related biological materials	24,686,217.41	19,376,351.82
Amortization of intangible assets	4,892,607.46	2,575,102.30
Amortization of long-term deferred expenses	-	74,196.68
Gains on disposal of fixed assets, intangible assets and other long-term assets	-43,304.45	-104,687.28
Finance expenses	7,878,683.74	5,059,267.83
Investment gains	-	-10,654,133.80
Decrease/increase (with "-" for increase) in deferred income tax assets	880,164.24	-95,516.98
Decrease in deferred income tax liabilities	-463,933.72	-218,727.89
Increase in inventories	-5,331,694.70	-13,848,998.60
Decrease/increase (with "-" for increase) in operational receivables	-40,491,073.61	4,468,656.57
Increase/decrease (with "-" for decrease) in operational payables	32,750,946.99	-24,179,872.07
Others	-	-2,042,111.64
Net cash flows from operating activities	49,181,447.21	13,823,997.26
2) Significant investment and financing activities not related to cash receipts and payments:	-	-
3) Net change in cash and cash equivalents		
Cash at the end of the period	89,163,859.90	54,710,533.22
Less: Cash at the beginning of the period	58,609,424.36	76,773,167.14
Net increase in cash and cash equivalents	30,554,435.54	-22,062,633.92

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES ON MAIN ITEMS TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

Supplemental information	30 June 2014 (unaudited)	30 June 2013 (unaudited)
1) Information on the acquisition of subsidiaries and other business entities:		
1. Price of the acquisition of subsidiaries and other business entities	-	10,000,000.00
2. Cash and cash equivalents paid for the acquisition of subsidiaries and other business entities	-	10,000,000.00
Less: Cash and cash equivalents hold by subsidiaries and other business entities	-	7,344,618.45
3. Net cash paid for the acquisition of subsidiaries and other business entities	-	2,655,381.55
4. The net assets from the acquired subsidiaries	-	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
2) Information on the disposal of subsidiaries and other business entities:	-	-

(3) Cash and cash equivalents

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
1) Cash	89,163,859.90	58,609,424.36
Including: Cash on hand	95,764.59	352,452.51
Bank deposit readily available	89,068,095.31	58,256,971.85
2) Closing balance of cash and cash equivalents	89,163,859.90	58,609,424.36

NOTES TO THE FINANCIAL STATEMENTS

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6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Parent company

Name	Relationship	Corporate type	Place of registration	Corporate representative	Business nature	Registered capital '000	Shareholding % in the Company	Voting % in the Company	Organization code
Shibao Holding	Controlling shareholder	Limited liability	Yiwu, Zhejiang	Zhang Shi Zhong	Industrial investment	50,000	59.57%	59.57%	75193535-X

The ultimate controlling parties of the Company are Zhang Shi Quan and his family members, namely, Zhang Bao Yi, Tang Hao Hang, Zhang Lan Jun and Zhang Shi Zhong.

2. Subsidiaries

Details of the subsidiaries of the Company are set out in Note 4 to the financial statements "Business Combination and Consolidated Financial Statements".

3. Related party transactions

(1) Purchase of goods and acceptance of services

Related party	Related party transaction	Pricing method and decision making procedures	30 June 2014 (unaudited)		30 June 2013 (unaudited)	
			Amount	% to similar transaction amount (%)	Amount	% to similar transaction amount (%)
Wuhu Sterling (Note)	Purchase of goods	Market price	-	-	434,045.23	0.27%

Related party	Related party transaction	Pricing method and decision making procedures	30 June 2014 (unaudited)		30 June 2013 (unaudited)	
			Amount	% to similar transaction amount (%)	Amount	% to similar transaction amount (%)
Wuhu Sterling (Note)	Sales of goods	Market price	-	-	9,766,110.67	3.13%

(Note): During the period, accounts of Wuhu Sterling was included in the Company's consolidated financial statements.

(2) Guarantee

Guarantor	Secured party	Guaranteed amount	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fully fulfilled
Shibao Holding	Hangzhou Shibao	60,000,000.00	2013.10.24-2014.06.17	2014.10.24-2014.12.17	No
Shibao Holding	Hangzhou Shibao	60,000,000.00	2013.09.16-2014.02.26	2014.09.16-2015.02.25	No
Shibao Holding	Zhejiang Shibao	20,000,000.00	2014.06.17	2014.12.16	No
Zhang Shi Quan	Zhejiang Shibao	20,000,000.00	2014.06.17	2014.12.16	No
Zhang Shi Quan	Zhejiang Shibao	99,000,000.00	2013.10.09-2014.03.06	2014.10.08-2015.02.06	No
Zhang Shi Zhong	Zhejiang Shibao	20,000,000.00	2014.06.17	2014.12.16	No

NOTES TO THE FINANCIAL STATEMENTS

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6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

4. Accounts receivables and accounts payable with related parties

Related party amounts payable by the listed company

Item	Related parties	Balance at the end of the period	Balance at the beginning of the period
Notes payable	Zhejiang Shibao (Note)	6,610,000.00	4,550,000.00
Notes payable	Hangzhou Shibao (Note)	4,392,532.53	3,159,286.84
Notes payable	Jilin Shibao (Note)	1,000,000.00	2,400,000.00
Notes payable	Hangzhou New Shibao (Note)	700,000.00	200,000.00
Total		<u>12,702,532.53</u>	<u>10,309,286.84</u>

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

7. COMMITMENTS

Item	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Material contracts in relation to acquisition of assets contracted but not recognized	<u>24,131,447.32</u>	<u>46,551,479.10</u>

NOTES TO THE FINANCIAL STATEMENTS

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8. NOTES ON MAIN ITEMS TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. Accounts receivable

(1) Breakdown by categories

Categories	As at 30 June 2014 (unaudited)				As at 31 December 2013 (audited)			
	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	50,462,580.52	99.42	-	-	43,153,425.67	99.33	-	-
Provision for bad debts by group								
Individually insignificant amount but significant based on credit risk characteristics	292,979.00	0.58	292,979.00	100.00	292,979.00	0.67	292,979.00	100.00
Sub-total by group	<u>292,979.00</u>		<u>292,979.00</u>		<u>292,979.00</u>		<u>292,979.00</u>	
Total	<u>50,755,559.52</u>		<u>292,979.00</u>		<u>43,446,404.67</u>		<u>292,979.00</u>	

The ageing analysis of accounts receivable:

Age	As at 30 June 2014 (unaudited)			As at 31 December 2013 (audited)		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	26,107,036.99	51.44	-	31,011,870.87	71.38	-
1-2 years	24,355,543.53	47.98	-	12,141,554.80	27.95	-
2-3 years	-	-	-	-	-	-
Over 3 years	<u>292,979.00</u>	<u>0.58</u>	<u>292,979.00</u>	<u>292,979.00</u>	<u>0.67</u>	<u>292,979.00</u>
Total	<u>50,755,559.52</u>	<u>100.00</u>	<u>292,979.00</u>	<u>43,446,404.67</u>	<u>100.00</u>	<u>292,979.00</u>

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

8. NOTES ON MAIN ITEMS TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

1. Accounts receivable (continued)

(1) Breakdown by categories (continued)

At the end of the period, 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	50,462,580.52	-	-	Individual impairment test showed no risk was expected of balance recover
Total	50,462,580.52	-		

Provision for bad debts by group:

Group name	Carrying amount	Provision for bad debts
Individually insignificant amount but significant based on credit risk characteristics	292,979.00	292,979.00
Total	292,979.00	292,979.00

(2) Accounts receivable from any shareholders holding 5% (inclusive) or more of the voting rights of the Company during the reporting period

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.

(3) The top five largest accounts receivable

Name	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable (%)
Wuhu Sterling	Controlling subsidiary	50,462,580.52	Within 1 year, 1-2 years	99.42
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	0.25
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	0.09
Dongfeng Motor Transmission Shaft Co., Ltd. Shiyan 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	0.07
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	0.06
Total		50,699,750.52		99.89

(4) Accounts receivable from related party

Name	Relationship with the Company	Amount	Percentage of total accounts receivable (%)
Wuhu Sterling	Controlling subsidiary	50,462,580.52	99.42
Total		50,462,580.52	99.42

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

8. NOTES ON MAIN ITEMS TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

2. Other receivables

(1) Breakdown by categories

Category	As at 30 June 2014 (unaudited)				As at 31 December 2013 (audited)			
	Carrying amount Amount	(%)	Provision for bad debts Amount	(%)	Carrying amount Amount	(%)	Provision for bad debts Amount	(%)
Individually significant amount with bad debt provision on individual basis	246,302,362.59	99.69	-	-	240,864,853.01	99.89	-	-
Provision for bad debts by group								
Individually insignificant amount but significant based on credit risk characteristics	54,745.24	0.02	-	-	54,504.42	0.02	-	-
Sub-total by group	54,745.24	0.02	-	-	54,504.42	0.02	-	-
Individually insignificant amount with bad debt provision on individual basis	719,695.43	0.29	-	-	205,873.37	0.09	-	-
Total	247,076,803.26		-	-	241,125,230.80		-	-

The ageing analysis of other receivables:

Age	As at 30 June 2014 (unaudited)			As at 31 December 2013 (audited)		
	Carrying amount Amount	Proportion (%)	Provision for bad debts Amount	Carrying amount Amount	Proportion (%)	Provision for bad debts Amount
Within 1 year	66,599,108.54	26.95	-	69,900,626.85	28.99	-
1-2 years	74,982,147.50	30.35	-	101,229,156.73	41.98	-
2-3 years	50,700,100.00	20.52	-	17,700,000.00	7.34	-
Over 3 years	54,795,447.22	22.18	-	52,295,447.22	21.69	-
Total	247,076,803.26	100.00	-	241,125,230.80	100.00	-

At the end of the period, individually significant amount with bad debt provision on individual basis:

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason
Other receivables from Jilin Shibao and others	246,302,362.59	-	-	Individual impairment test showed no risk was expected of balance recover.
Total	246,302,362.59	-	-	

Provision for bad debts by group:

Group name	Carrying amount	Provision for bad debts
Individually insignificant amount but significant based on credit risk characteristics	54,745.24	-
Total	54,745.24	-

At the end of the period, individually insignificant amount with bad debt provision on individual basis

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Other receivables of expenses of additional A Shares issue, individual imprest and others	719,695.43	-	-	Individual impairment test showed no risk was expected of balance recover.
Total	719,695.43	-	-	

NOTES TO THE FINANCIAL STATEMENTS

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8. NOTES ON MAIN ITEMS TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

2. Other receivables (continued)

(2) Other receivables from any shareholders holding 5% (inclusive) or more of the voting rights of the Company during the reporting period

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

(3) The top five largest other receivables

Name	Relationship with the Company	Amount	Ageing	Percentage of total other receivables (%)
Jilin Shibao	Controlling subsidiary	105,290,000.00	Within 1 year, 1-2 years, 2-3 years, over 3 years	42.61
Hangzhou New Shibao	Controlling subsidiary	75,190,000.00	Within 1 year, 1-2 years, 2-3 years	30.43
Siping Steering	Controlling subsidiary	24,340,863.91	Within 1 year, 1-2 years	9.85
Beijing Autonics	Controlling subsidiary	18,891,000.01	Within 1 year, 1-2 years, 2-3 years, over 3 years	7.65
Hangzhou Shibao	Controlling subsidiary	13,721,498.67	Within 1 year	5.55
Total		237,433,362.59		96.09

(4) Other receivables from related parties

Name	Relationship with the Company	Amount	Percentage of total other receivables (%)
Jilin Shibao	Controlling subsidiary	105,290,000.00	42.61
Hangzhou New Shibao	Controlling subsidiary	75,190,000.00	30.43
Siping Steering	Controlling subsidiary	24,340,863.91	9.85
Beijing Autonics	Controlling subsidiary	18,891,000.01	7.65
Hangzhou Shibao	Controlling subsidiary	13,721,498.67	5.55
Total		237,433,362.59	96.09

3. Long-term equity investments

Investees	Accounting method	Investment cost	As at	Increase/decrease	As at	Shareholding in investee (%)	Voting right in investee (%)	Cash dividend for the period
			1 January 2014 (audited)		30 June 2014 (unaudited)			
Hangzhou Shibao	Cost method	70,461,807.49	70,461,807.49	-	70,461,807.49	100.00	100.00	25,000,000.00
Hangzhou New Shibao								
Shibao	Cost method	42,000,000.00	42,000,000.00	-	42,000,000.00	70.00	70.00	-
Jilin Shibao	Cost method	30,000,000.00	30,000,000.00	-	30,000,000.00	100.00	100.00	-
Wuhu Sterling	Cost method	22,609,936.00	19,447,407.38	-	19,447,407.38	57.89	57.89	-
Siping Steering	Cost method	13,250,000.00	8,250,000.00	5,000,000.00	13,250,000.00	100.00	100.00	-
Beijing Autonics	Cost method	7,000,000.00	7,000,000.00	-	7,000,000.00	70.00	70.00	-
Total		185,321,743.49	177,159,214.87	5,000,000.00	182,159,214.87			25,000,000.00

NOTES TO THE FINANCIAL STATEMENTS

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8. NOTES ON MAIN ITEMS TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

4. Revenue and cost of sales

(1) Revenue

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Revenue from main business	18,112,397.69	18,696,231.23
Revenue from other business	71,701.62	–
Total	18,184,099.31	18,696,231.23
Cost of sales	13,225,541.40	12,580,528.44

(2) Main business (by sectors)

Sector	30 June 2014 (unaudited)		30 June 2013 (unaudited)	
	Revenue	Cost of sales	Revenue	Cost of sales
Automobile components and spare parts manufacture	18,112,397.69	13,167,831.89	18,696,231.23	12,580,528.44
Total	18,112,397.69	13,167,831.89	18,696,231.23	12,580,528.44

(3) Main business (by products)

Product	30 June 2014 (unaudited)		30 June 2013 (unaudited)	
	Revenue	Cost of sales	Revenue	Cost of sales
Spare parts and others	18,112,397.69	13,167,831.89	18,696,231.23	12,580,528.44
Total	18,112,397.69	13,167,831.89	18,696,231.23	12,580,528.44

(4) Revenue from the top five largest customers

Name	Revenue	Proportion to total revenue (%)
Hangzhou Shibao	11,379,167.39	62.58
Wuhu Sterling	6,648,850.30	36.57
Siping Steering	84,380.00	0.46
Yiwu City He Feng Automobile Spare Parts Co., Ltd. (義烏市和豐汽車配件有限公司)	71,701.62	0.39
Total	18,184,099.31	100.00

5. Investment gains

(1) Breakdown

Item	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Investment gains from long-term equity investments under cost method of accounting	25,000,000.00	–
Investment gains from long-term equity investments under equity method of accounting	–	57,168.52
Total	25,000,000.00	57,168.52

NOTES TO THE FINANCIAL STATEMENTS

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8. NOTES ON MAIN ITEMS TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

5. Investment gains (continued)

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

Investee	30 June 2014 (unaudited)	30 June 2013 (unaudited)	Reasons of increase/ decrease as compared with the previous period
Hangzhou Shibao	25,000,000.00	–	Reduction in dividend from investee
Total	25,000,000.00	–	

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

Investee	30 June 2014 (unaudited)	30 June 2013 (unaudited)	Reasons of increase/ decrease as compared with the previous period
Wuhu Sterling	–	57,168.52	–
Total	–	57,168.52	

6. Supplemental information on the statement of cash flows

Supplemental information	30 June 2014 (unaudited)	30 June 2013 (unaudited)
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	25,601,618.26	521,401.09
Depreciation of fixed assets, oil and gas assets and production related biological materials	568,457.93	532,284.64
Amortization of intangible assets	408,299.66	93,032.42
Finance expenses	3,184,116.31	1,844,975.16
Investment gains	-25,000,000.00	-57,168.52
Decrease/increase (with "-" for increase) in inventories	1,522,039.93	-1,534,740.26
Decrease/increase (with "-" for increase) in operational receivables	-12,898,310.77	1,395,476.32
Increase/decrease (with "-" for decrease) in operational payables	1,997,894.23	-1,650,952.80
Net cash flows from operating activities	-4,615,884.45	1,144,308.05
2) Significant investment and financing activities not related to cash receipts and payments:		
3) Net change in cash and cash equivalents:		
Cash at the end of the period	31,505,556.17	24,102,970.01
Less: Cash at the beginning of the period	10,360,957.46	31,336,987.85
Net increase in cash and cash equivalents	21,144,598.71	-7,234,017.84

NOTES TO THE FINANCIAL STATEMENTS

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9. SUPPLEMENTAL INFORMATION

1. Non-recurring gains and losses during the period

Item	Amount
Gains or losses on disposal of non-current assets, inclusive of provision for assets impairment write-off	43,304.45
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	3,553,610.78
Reversal of impairment provisions for receivables subject to individual impairment test	88,166.80
Other gains and losses items conforming with the definition of non-recurring gains or losses	19,724.29
Less: Effect on enterprise income tax	163,708.68
Effect on interest of minority shareholders (after tax)	400,028.36
Total	<u>3,141,069.28</u>

2. Differences in accounting data 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.

3. Return on net assets and earnings per share

Profit during the period	Weighted average return on net assets ratio (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to the holders of the Company's ordinary shares	3.67%	0.10	0.10
Net profit, after deduction of non-recurring gains and losses, attributable to the holders of the Company's ordinary shares	3.25%	0.09	0.09

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

9. SUPPLEMENTAL INFORMATION (continued)

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

(1) Items in the consolidated balance sheet

	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)	Change (%)	Reasons for the change
Cash on hand and at bank	108,728,648.85	66,950,127.71	62.40	Mainly due to cash inflows related to operating activities.
Notes receivable	98,631,845.26	107,726,195.93	-8.44	Mainly due to an increase in banker's acceptances by endorsement.
Accounts receivable	306,955,513.93	278,671,401.35	10.15	Mainly due to slow payment by customers during the half year.
Inventories	186,003,471.74	180,906,462.73	2.82	Mainly due to an increase in sales of Hangzhou Shibao during the period.
Fixed assets	423,291,016.22	436,022,601.37	-2.92	Mainly due to depreciation during the period.
Intangible assets	136,765,184.57	111,106,921.94	23.09	Mainly due to purchase of land by Zhejiang Shibao during the period.
Other non-current assets	32,294,389.44	22,743,120.05	42.00	Mainly due to an increase in prepayments for fixed assets.
Short-term borrowings	263,175,846.41	234,750,000.00	12.11	Mainly due to an increase in bank borrowings for expansion in production scale during the period.
Accounts payable	194,338,068.67	182,042,731.52	6.75	Mainly due to an increase in purchase during the period.
Other payables	8,552,557.27	1,898,639.32	350.46	Mainly due to the considerations of equity interest transfer payable to PROMISED LAND VENTURES LLC.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

9. SUPPLEMENTAL INFORMATION (continued)

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

(2) Items in the consolidated income statement

	As at 30 June 2014 (unaudited)	As at 30 June 2013 (unaudited)	Change (%)	Reasons for the change
Revenue	394,679,944.00	313,749,840.37	25.79	Mainly due to an increase in production scale and sales during the period.
Cost of sales	286,843,808.96	228,227,679.02	25.68	Mainly due to a corresponding increase in cost of sales carried forward in accordance with increase of sales during the period.
Selling expenses	25,261,994.55	18,452,268.19	36.90	Mainly due to an increase in transportation cost and warranty fee.
General and administrative expenses	45,726,310.59	33,820,122.86	35.20	Mainly due to an increase in research and development expenses, and employee benefits.
Financial expenses	7,792,460.20	5,074,450.31	53.56	Mainly due to an increase in bank borrowings, as compared with that of the same period last year, for an expansion in the production scale during the period.
Non-operating income	3,700,447.93	2,013,654.87	83.77	Mainly due to an increase in government grants during the period.
Non-operating expenses	364,814.73	1,343,333.16	-72.84	Mainly due to a decrease in expenses not relating to production and operations during the period.
Income tax expenses	5,696,615.75	4,221,315.41	34.95	Mainly due to an increase in taxable income during the period.

5. Other financial information

Item	30 June 2014 (unaudited)	31 December 2013 (audited)
Net current assets	154,870,821.34	184,010,834.07
Total assets less current liabilities	811,462,015.86	813,459,928.13

10. OTHERS

The interim report was approved by the Nineteenth Meeting of the Fourth Board of Directors held on 21 August 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF CHINA AUTOMOBILE INDUSTRY

From January to June 2014, production and sales volume of China automobile industry was 11,783,400 units and 11,683,500 units respectively, representing an increase of 9.60% and 8.40% over the corresponding period of 2013. Among these, production and sales volume of passenger cars were 9,708,500 units and 9,633,800 units respectively, representing an increase of 12.10% and 11.20% over the corresponding period of 2013; production and sales volume of commercial vehicles were 2,074,900 units and 2,049,700 units respectively, representing a decrease of 0.60% and 3.20% over the corresponding period of 2013. From January to June 2014, top ten automaker groups in China produced 10,506,900 units of automobiles, representing 89.90% of the production of automobile industry, an increase of 1.90% over the corresponding period of 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, being a core supplier of FAW Group and having accumulated 30 years of OEM experiences in automobile industry, have 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 69 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: TS 16949 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 our 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 recorded a revenue of RMB394,679,944.00, representing an increase of 25.79% over the corresponding period of 2013. The increase of revenue was mainly due to an increase in sales of steering products for passenger cars.

During the reporting period, the gross profit of Company increased by RMB22,313,973.69 over the corresponding period of 2013. The gross profit margin of the Company was 27.32% (corresponding period of 2013: 27.26%). The increase in the gross profit margin was mainly due to change in the Company's products portfolio.

During the reporting period, the Company's selling expenses was RMB25,261,994.55, representing an increase of 36.90% over the corresponding period of 2013. Increase in selling expenses was mainly due to an increase in transportation costs and the provision of warranty expenses. During the reporting period, the Company's general and administrative expenses was RMB45,726,310.59, representing an increase of 35.20% over the corresponding period of 2013. Increase in general and administrative expenses was mainly due to an increase in the staff costs and research and development expenses. During the reporting period, the Company's financial expenses was RMB7,792,460.20, representing an increase of 53.56% over the corresponding period of 2013. Increase in financial expenses was mainly due to an increase in bank borrowings during the period under review, used for production expansion of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Company's research and development expenses was RMB14,121,969.06. The ratio of research and development expenses to the Company's net assets and revenue for the first half of 2014 was 1.83% and 3.58% 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 and large investment 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.

As at the end of the reporting period, the net increase in the Company's cash and cash equivalents was RMB30,554,435.54, representing an increase of 238.49% over the corresponding period of 2013. The increase was mainly due to an increase of cash inflow from operating activities and bank loans.

The Company recorded a net profit attributable to equity holders of the Parent of RMB27,781,320.27, representing a decrease of 20.27% as compared with the corresponding period of 2013. The decrease was mainly due to no investment gains during the period. However, net profit after non-recurring gains and losses attributable to equity holders of the Parent was RMB24,640,250.99, representing an increase of 6.17%.

As at the end of the reporting period, the Company's gearing ratio was 44.54%, representing an increase of 3.55% as compared with the beginning of the year. 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 RMB1,390,023,376.27, equity attributable to equity holders of the Parent was RMB746,871,797.71, representing an increase of 5.77% and 0.45% respectively as compared with the beginning of the year.

FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2014, the amount of total loans and borrowings was RMB279,056,246.41 (31 December 2013: RMB250,630,400.00). Total loans and borrowings increased by RMB28,425,846.41 when compared with the beginning of the 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 RMB276,226,246.41 (31 December 2013: RMB247,800,400.00), representing a share of 98.99% (31 December 2013: 98.87%) in total loans and borrowings. Loans and borrowings at fixed interest rates amounted to RMB171,256,246.41 (31 December 2013: 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 in the PRC, 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 of the issue of A Shares were passed at the EGM, the A Shares Class Meeting and the H Shares Class Meeting held on 20 March 2014. As at the date of this report, the Company has submitted the related applications to and has accepted by the CSRC, the review is in progress. Details of the issue of A Shares are set out in the Company's announcements dated 27 January 2014 and 30 June 2014, the Company's overseas regulatory announcements dated 28 January 2014 and 30 June 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.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 30 June 2014, the restricted cash on hand and at bank of the Group was RMB19,564,788.95 (31 December 2013: RMB8,340,703.35) which refers to the deposits for issuance of bank acceptances and letter of credit.

As at 30 June 2014, buildings and constructions with a carrying value of RMB5,737,905.94 (31 December 2013: RMB5,899,575.10) as included in fixed assets and land use rights with a carrying value of RMB7,029,943.96 (31 December 2013: RMB7,114,530.58) as included in intangible assets, have been pledged as security for a loan granted to a subsidiary.

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

MATERIAL ACQUISITIONS AND DISPOSALS

Acquisition of remaining equity interests in Siping Steering

On 4 June 2014, the Company entered into an Equity Transfer Agreement with the Vendor (PROMISED LAND VENTURES LLC (美國寶園公司)), to purchase 25% of equity interests of Siping Steering (a non-wholly owned subsidiary of the Company) held by the Vendor. The term of operation for Siping Steering was expired on 16 June 2014. It was decided that both parties did not wish to extend the term of partnership. According to the then effective Articles of Association of Siping Steering, the Company paid RMB5,000,000 to acquire the equity interests in Siping Steering as held by the Vendor. As the applicable ratios in respect of the Acquisition under the Equity Transfer Agreement are more than 5% but less than 25%, the Acquisition under the Equity Transfer Agreement constitutes a disclosable transaction of the Company under Chapter 14 of the Listing Rules. In addition, as the Vendor held 25% of equity interests in Siping Steering, therefore its is regarded as being a connected person of the Company under Chapter 14A of the Listing Rules and the Acquisition constitutes a connected transaction under the Listing Rules. As the consideration of the Acquisition is less than HK\$10,000,000, the Acquisition shall only subject to the reporting and announcement rules under Rule 14A.32 of the Listing Rules, but would be exempt from the independent shareholders' approval requirement. On 11 June 2014, Siping Steering has completed the relevant industry and commerce registration procedures. Since then Siping Steering has become a wholly owned subsidiary of the Company, and has changed from a Sino-foreign cooperative joint venture to an enterprise wholly owned by a legal person. Its financial results was continued to be consolidated into the Group's accounts, but no longer deducting the minority interests of RMB500,000. In addition, the consolidated balance sheet of the Company will not deduct the minority interests of RMB2,750,000.

Save as disclosed above, during the period under review, the Group did not have any other material acquisition and disposal concerning subsidiaries and associates.

FOREIGN CURRENCY EXPOSURE

During the period under review, 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

As at 30 June 2014, apart from the commitments set out in note 7 to the financial statements, the Group has no other material capital commitments.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group had no material contingent liabilities.

EMPLOYEE AND REMUNERATION

As at 30 June 2014, the Group had a total of 1,616 employees, and total staff salaries and welfares costs amounted to RMB53,575,297.36. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 during the reporting period.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

OUTLOOK

The Company's development strategy is to 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 electric power steering system (EPS) products. Three hydraulic power steering development projects of the Company were authenticated industry new products of Zhejiang province. In addition, electric power steering (EPS) system development project of the Company for clean energy vehicles was the national high-tech industrialization model project of NDRC (National Development and Reform Commission).

During the period under review, Hangzhou New Shibao seized new business of developing electric power steering (EPS) for BAIC Motor in the bidding and became the EPS supplier of BAIC Motor. Among which, one development project is expected to start production in 2015.

During the period under review, the precious casting and processing of automotive components project (汽車零部件精密鑄件與加工建設項目), one of the projects intended to use proceeds of the additional A Shares issue, implemented at Jilin Shibao, passed tests at German testing facilities of Mercedes-Benz Daimler. Jilin Shibao became a qualified supplier of Mercedes-Benz Daimler for global sourcing, and is now preparing for mass production.

During the period under review, the increase of production of power automotive steering gears project (汽車液壓助力轉向器擴產項目), one of the projects intended to use proceeds of the additional A Shares issue, implemented at Hangzhou Shibao, became a qualified supplier of SGMW, Hyundai and Changan Mazda. Hangzhou Shibao also passed tests at German testing facilities of Mercedes-Benz Daimler and is in the process of qualified supplier audit of Mercedes-Benz Daimler for global sourcing.

As at the end of the period, the Company has 7 development projects started production, and 17 projects were in the process of development. These projects are expected to contribute revenue to the Group one after another in the future.

For the second half of 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.

Forecast on the operating results between January and September 2014

Change in net profit attributable to equity holders of the Parent between January and September 2014 (%)	-30% to 0%
Range of change in net profit attributable to equity holders of the Parent between January and September 2014 (RMB ten thousands)	3,048.55 to 4,355.07
Net profit attributable to equity holders of the Parent between January and September 2013 (RMB ten thousands)	4,355.07
Illustrations on reasons attributable to the movements in results	Large decrease in non-recurring gains

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

For the period under review, the Company had been in compliance with the majority of the code provisions set out in the Corporate Governance Code with the exception of code provisions A.2.1, A.1.8 and A.6.7.

Under code provision A.2.1, the roles of the chairman and the chief executive shall be separated, and shall not be undertaken by the same individual. Mr. Zhang Shi Quan has been the Chairman and General Manager of the Company during the period under review. Mr. Zhang Shi Quan is the Group's founder, and is responsible for overseeing the overall strategic planning, new business investment, 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 response to 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 systems. 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 30 June 2014 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 period under review.

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).

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 director, 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).

CORPORATE GOVERNANCE AND OTHER INFORMATION

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).

The financial information in the interim report has been reviewed by the Audit Committee.

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 30 June 2014, 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 positions in A Shares of the Company:

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

Note: 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

(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.

(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 30 June 2014, 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 Divisions 7 and 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to the Model Code to be notified to the Company and the Hong Kong Stock Exchange.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, so far as is known to the Directors, 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 positions in the 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 and 2)	165,387,223 A Shares	86.62%	59.57%
Mr. Zhang	Interest in controlled corporation (Note 1 and 2)	165,387,223 A Shares	86.62%	59.57%
	Beneficial owner (Note 2)	10,556,632 A Shares	5.53%	3.80%
UBS AG	Beneficial owner	344,000 H Shares	0.40%	0.12%
	Person having a security interests in shares	9,888,000 H Shares	11.40%	3.56%
Segantii Capital Management Limited	Investment manager	9,368,000 H Shares	10.80%	3.37%

Note:

- (1) As at 30 June 2014, Shibao Holding held 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 of the Company held by Shibao Holding and 10,556,632 A Shares of the Company directly held by himself, are also disclosed in the paragraph headed "Disclosure of the Interests and Short Positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its associated corporations". These 165,387,223 A Shares of the Company held by Shibao Holding represent the same interest and therefore duplicate amongst Shibao Holding and Mr. Zhang.

Save as disclosed above, as at 30 June 2014, Directors are not aware of any other person (other than the Directors, Supervisors and chief executive of the Company as disclosed above) who had an interest or short position in the shares or underlying shares of the Company as recorded in the registered to be kept under Section 336 of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

For the period ended 30 June 2014, the Company has not implemented any share option scheme.

COMPETING INTERESTS

During the period under review, none of the Directors, the substantial shareholders or the management shareholders of the Company (as defined in the Listing Rules of the Hong Kong Stock Exchange) and 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Since the commencement of listing of the H Shares of the Company on GEM of the Hong Kong Stock Exchange on 16 May 2006 and the transfer listing from GEM of the Hong Kong Stock Exchange to the Main Board of the 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 purchased, sold or redeemed any listed securities 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 its 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 is in compliance with the Listing Rules of the Hong Kong Stock Exchange which required at least 25% of the total issued share capital of the Company be held by the public.

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

Hangzhou, Zhejiang, the PRC
21 August 2014

As at the date of this report, the Board comprises Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Mr. Zhu Jie Rong and Ms. Zhang Lan Jun as executive directors; Mr. Zhang Shi Zhong and Mr. Lou Run Zheng as non-executive directors; and Mr. Zhao Chun Zhi, Mr. Chau Kam Wing, Donald, Mr. Zhang Hong Zhi and Mr. Guo Kong Hui as independent non-executive directors.

GLOSSARY

“A Share”	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 trade 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
“BAIC Motor”	Beijing Automobile Group Company Limited
“Beijing Autonics”	Beijing Autonics Technology Co., Ltd., a subsidiary controlled by the Company
“Board”	Board of Directors of the Company
“Changan Mazda”	Changan Mazda Automobile Company Limited
“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 the Hong Kong Stock Exchange
“CSRC”	China Securities Regulatory Commission, People’s Republic of China
“Director(s)”	Director(s) of the Company
“FAW Group”	FAW Group Corporation
“Group”	The Company and its subsidiaries
“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
“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 the Hong Kong Stock Exchange
“Mercedes-Benz Daimler”	Daimler AG, the largest commercial vehicle manufacturer, the second largest luxury car manufacture and the second largest truck manufacturer, consisting of four business divisions, i.e. Mercedes-Benz cars, Mercedes-Benz vans, Daimler heavy duty trucks and Daimler financial services

GLOSSARY

“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules of the 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
“SGMW”	Shanghai General Motor Wuling Automobile Company Limited (SGMW) is a joint venture of Shanghai Automobile Group Company, General Motor (China) Investment Company Limited and Liuzhou Wuling Automobile Company Limited
“Shibao Holding or Zhejiang Shibao Holding or Ultimate Holding Company”	Zhejiang Shibao Holding Group Co., Ltd.
“Siping Steering”	Siping Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company since 11 June 2014
“Supervisor(s)”	Supervisor(s) of the Company
“Wuhu Sterling”	Wuhu Sterling Steering System Co., Ltd., a subsidiary controlled by the Company