



STEERING THE FUTURE



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

INTERIM REPORT 2015

* For identification purposes only



CONTENTS

Corporate Information	2
Financial Highlights	5
Consolidated Balance Sheet	6
Consolidated Income Statement	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	10
Balance Sheet of the Parent Company	11
Income Statement of the Parent Company	12
Statement of Changes in Equity of the Parent Company	13
Statement of Cash Flows of the Parent Company	14
Notes to the Financial Statements	15
Management Discussion and Analysis	78
Corporate Governance and Other Information	82
Glossary	87

CORPORATE INFORMATION

Legal Name	Zhejiang Shibao Company Limited* 浙江世寶股份有限公司
Board of Directors	Executive Directors Mr. Zhang Shi Quan (張世權) (<i>Chairman and General Manager</i>) Mr. Zhang Bao Yi (張寶義) (<i>Vice Chairman and Deputy General Manager</i>) Mr. Tang Hao Han (湯浩瀚) (<i>Vice Chairman and Deputy General Manager</i>) Ms. Zhang Lan Jun (張蘭君) (<i>Finance Director</i>) Non-executive Directors Mr. Zhang Shi Zhong (張世忠) Mr. Zhu Jie Rong (朱頡榕) Independent Non-executive Directors Mr. Zhang Hong Zhi (張洪智) Mr. Guo Kong Hui (郭孔輝) Mr. Shum Shing Kei (沈成基)
Supervisors	Mr. Du Min (杜敏) Mr. Yang Di Shan (楊迪山) Mr. Wu Lang Ping (吳琅平) Mr. Shen Song Sheng (沈松生) Ms. Feng Yan (馮燕)
Senior Management	Mr. Yu Zhong Chao (虞忠潮) Ms. Liu Xiao Ping (劉曉平)
Audit Committee	Mr. Shum Shing Kei (沈成基) (<i>Chairman</i>) Mr. Zhang Shi Zhong (張世忠) Mr. Zhang Hong Zhi (張洪智)
Remuneration Committee	Mr. Shum Shing Kei (沈成基) (<i>Chairman</i>) Mr. Zhang Shi Zhong (張世忠) Mr. Zhang Hong Zhi (張洪智)
Nomination Committee	Mr. Zhang Hong Zhi (張洪智) (<i>Chairman</i>) Ms. Zhang Lan Jun (張蘭君) Mr. Shum Shing Kei (沈成基)
Investment & Strategy Committee	Mr. Zhang Shi Quan (張世權) (<i>Chairman</i>) Mr. Zhang Bao Yi (張寶義) Mr. Tang Hao Han (湯浩瀚)

* For identification only

CORPORATE INFORMATION

Secretary of The Board	Ms. Liu Xiao Ping (劉曉平)
Company Secretary	Ms. Huen Lai Chun (禰麗珍)
Authorised Representatives	Ms. Zhang Lan Jun (張蘭君) Ms. Huen Lai Chun (禰麗珍)
Registered Office	No. 1, Shuanglin Road Fotang Town Yiwu Zhejiang Province China (Post code: 322002)
Principal Place of Business in Hong Kong	Room 1204 C C Wu Building 302-308 Hennessy Road Wanchai Hong Kong
Auditors	Pan-China Certified Public Accountants LLP 4th-10th Floor Xinhu Commercial Tower No. 128 Xixi Road Hangzhou, China
Hong Kong H Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Contact Information

Corporate communication/Investor relations

Ms. Liu Xiao Ping (劉曉平) *Secretary of the Board*
No. 6, 17th Avenue
Hangzhou Economic and Technology Development Zone
Hangzhou
Zhejiang Province
China (Post code: 310018)
Tel.: +86 571 2802 5692
Fax: +86 571 2802 5691
Email: ir@zjshibao.com

Company secretary services

Ms. Huen Lai Chun (禰麗珍) *Company Secretary*
Room 1204
C C Wu Building
302-308 Hennessy Road
Wanchai
Hong Kong
Tel.: +852 31048118
Fax: +852 31048119
Email: ir@zjshibao.com

Place of Listing

A Shares: Shenzhen Stock Exchange
Stock Name: Zhejiang Shibao Stock Code: 002703
H Shares: The Stock Exchange of Hong Kong Limited
Stock Name: Zhejiang Shibao Stock Code: 1057

Website

www.zjshibao.com

FINANCIAL HIGHLIGHTS

	This reporting period RMB	Corresponding period of last year RMB	Change
Revenue	442,723,463.64	394,679,944.00	12.17%
Gross profit margin from main business	25.98%	27.30%	-1.32%
Net profit attributable to shareholders of the listed issuer	36,109,760.10	27,781,320.27	29.98%
Net profit after non-recurring gains and losses attributable to shareholders of the listed issuer	28,493,235.40	24,640,250.99	15.64%
Net cash flow from operating activities	26,207,604.08	49,181,447.21	-46.71%
Basic earnings per share (RMB/Share)	0.1143	0.1001	14.19%
Diluted earnings per share (RMB/Share)	0.1143	0.1001	14.19%
Weighted average return on net assets (%)	2.51%	3.67%	-1.16%

	At the end of the reporting period RMB	At the beginning of the reporting period RMB	Change
Total assets	2,012,610,767.20	2,101,067,888.20	-4.21%
Net assets attributable to shareholders of the listed issuer	1,425,152,040.74	1,420,628,066.14	0.32%

UNAUDITED INTERIM FINANCIAL STATEMENTS

The Board of the Company is pleased to announce the unaudited consolidated financial statements of the Company for the six months ended 30 June 2015, together with the comparative figures for the corresponding period in 2014. The accounting information contained in this interim report has not been audited but has been reviewed by the Audit Committee of the Company.

CONSOLIDATED BALANCE SHEET

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Balance at the end of the period	Balance at the beginning of the period
Current Assets		
Cash on hand and at bank	472,118,630.24	760,413,906.65
Notes receivable	117,543,694.19	110,001,880.87
Accounts receivable	299,249,171.89	328,448,994.53
Prepayments	6,539,428.23	10,618,954.07
Other receivable	6,033,728.12	6,348,421.04
Inventories	208,916,616.23	202,149,703.92
Other current assets	219,281,582.77	8,139,857.40
Total current assets	<u>1,329,682,851.67</u>	<u>1,426,121,718.48</u>
Non-current Assets		
Fixed assets	455,666,036.33	449,185,309.04
Construction in progress	34,155,099.87	37,830,098.68
Intangible assets	119,011,537.66	123,778,255.54
Goodwill	4,694,482.34	4,694,482.34
Deferred tax assets	4,756,844.53	4,690,643.38
Other non-current assets	64,643,914.80	54,767,380.74
Total non-current assets	<u>682,927,915.53</u>	<u>674,946,169.72</u>
Total Assets	<u><u>2,012,610,767.20</u></u>	<u><u>2,101,067,888.20</u></u>
Current Liabilities		
Short-term loans	199,000,000.00	268,260,000.00
Notes payable	34,965,087.14	65,791,655.53
Accounts payable	218,609,739.72	237,195,243.19
Advance from customers	4,627,018.64	4,886,192.92
Employee benefits payable	10,127,003.02	13,657,975.74
Taxes payable	6,551,045.24	6,053,251.21
Interests payable	1,603,885.39	1,538,256.74
Dividend payable	31,585,785.50	–
Other payable	1,468,348.64	2,228,853.18
Non-current liabilities due within one year	8,800,000.00	8,800,000.00
Other current liabilities	15,049,043.24	12,473,903.33
Total current liabilities	<u>532,386,956.53</u>	<u>620,885,331.84</u>
Non-current Liabilities		
Long-term borrowings	1,900,000.00	1,900,000.00
Deferred income	27,969,876.56	30,178,729.37
Deferred tax liabilities	5,555,536.38	5,992,749.26
Total non-current liabilities	<u>35,425,412.94</u>	<u>38,071,478.63</u>
Total Liabilities	<u>567,812,369.47</u>	<u>658,956,810.47</u>

CONSOLIDATED BALANCE SHEET

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Balance at the end of the period	Balance at the beginning of the period
Shareholders' Equity		
Share capital	315,857,855.00	315,857,855.00
Capital reserve	660,012,081.76	660,012,081.76
Surplus reserve	121,377,588.47	121,377,588.47
Retained earnings	327,904,515.51	323,380,540.91
	<hr/>	<hr/>
Equity attributable to equity holders of the Parent	1,425,152,040.74	1,420,628,066.14
	<hr/>	<hr/>
Minority interests	19,646,356.99	21,483,011.59
	<hr/>	<hr/>
Total Shareholders' Equity	1,444,798,397.73	1,442,111,077.73
	<hr/>	<hr/>
Total Liabilities and Shareholders' Equity	2,012,610,767.20	2,101,067,888.20

CONSOLIDATED INCOME STATEMENT

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
Revenue	442,723,463.64	394,679,944.00
Less: Cost of sales	326,123,440.42	286,843,808.96
Sales taxes and surcharges	2,706,588.83	2,271,553.30
Selling expenses	24,904,879.91	25,261,994.55
General and administrative expenses	51,520,842.49	45,726,310.59
Financial expenses	4,933,494.25	7,792,460.20
Assets impairment losses	418,291.47	964,739.86
Add: Investment gains	6,600,246.57	—
Operating profit	38,716,172.84	25,819,076.54
Add: Non-operating income	3,983,556.80	3,700,447.93
Including: Gain on disposal of non-current assets	116,510.35	49,836.15
Less: Non-operating expenses	1,562,720.72	364,814.73
Including: Loss on disposal of non-current assets	1,208,726.88	6,531.70
Total profit	41,137,008.92	29,154,709.74
Less: Income tax expenses	6,863,903.42	5,696,615.75
Net Profit	34,273,105.50	23,458,093.99
Net profit attributable to equity holders of the Parent	36,109,760.10	27,781,320.27
Minority interests	-1,836,654.60	-4,323,226.28
Total comprehensive income	34,273,105.50	23,458,093.99
Total comprehensive income attributable to equity holders of the Parent	36,109,760.10	27,781,320.27
Total comprehensive income attributable to minority shareholders	-1,836,654.60	-4,323,226.28
Earnings per share:		
Basic earnings per share	0.1143	0.1001
Diluted earnings per share	0.1143	0.1001

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Current Period					
	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	315,857,855.00	660,012,081.76	121,377,588.47	323,380,540.91	21,483,011.59	1,442,111,077.73
2. Balance at the beginning of year	315,857,855.00	660,012,081.76	121,377,588.47	323,380,540.91	21,483,011.59	1,442,111,077.73
3. Increase/(decrease) during the period	-	-	-	4,523,974.60	-1,836,654.60	2,687,320.00
(1) Total comprehensive income	-	-	-	36,109,760.10	-1,836,654.60	34,273,105.50
(2) Appropriation of profits	-	-	-	-31,585,785.50	-	-31,585,785.50
1. Distribution to shareholders	-	-	-	-31,585,785.50	-	-31,585,785.50
4. Balance at the end of the period	315,857,855.00	660,012,081.76	121,377,588.47	327,904,515.51	19,646,356.99	1,444,798,397.73

Item	Last Period					
	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) Total comprehensive income	-	-	-	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

CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	312,136,925.16	283,563,275.86
Return of taxes and levies	1,128,323.65	271,100.00
Cash received relating to other operating activities	20,268,813.07	12,907,412.08
Sub-total of cash inflow	333,534,061.88	296,741,787.94
Cash paid for purchase of goods and acceptance of services	179,183,657.73	123,532,355.00
Cash paid to and on behalf of employees	65,150,635.21	52,826,502.09
Payment of taxes and levies	26,605,037.45	21,787,507.02
Cash paid relating to other operating activities	36,387,127.41	49,413,976.62
Sub-total of cash outflow	307,326,457.80	247,560,340.73
Net cash flow from operating activities	26,207,604.08	49,181,447.21
2. Cash flows from investing activities:		
Cash received from return of investments	820,000,000.00	10,467,600.00
Cash received from investment gains	6,600,246.57	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	3,731,267.66	2,432,632.41
Cash received relating to other investing activities	-	5,563,700.00
Sub-total of cash inflow	830,331,514.23	18,463,932.41
Cash paid to acquire fixed assets, intangible assets and other long-term assets	27,998,293.99	57,502,959.19
Cash paid for investment	1,030,000,000.00	-
Sub-total of cash outflow	1,057,998,293.99	57,502,959.19
Net cash flow from investing activities	-227,666,779.76	-39,039,026.78
3. Cash flows from financing activities:		
Cash received from borrowings	165,000,000.00	111,920,000.00
Sub-total of cash inflow	165,000,000.00	111,920,000.00
Cash paid for debt repayments	234,260,000.00	83,494,153.59
Cash paid for distribution of dividends, profit or interest expenses	5,537,107.57	7,280,675.60
Cash paid relating to other financing activities	280,000.00	373,592.23
Sub-total of cash outflow	240,077,107.57	91,148,421.42
Net cash flow from financing activities	-75,077,107.57	20,771,578.58
4. Effect of changes in foreign exchange rate on cash and cash equivalents	-350,629.88	-359,563.47
5. Net increase in cash and cash equivalents	-276,886,913.13	30,554,435.54
Add: Opening balance of cash and cash equivalents	742,857,761.48	58,609,424.36
6. Closing balance of cash and cash equivalents	465,970,848.35	89,163,859.90

BALANCE SHEET OF THE PARENT COMPANY

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Balance at the end of the period	Balance at the beginning of the period
Current assets:		
Cash on hand and at bank	200,414,469.70	312,492,858.93
Notes receivable	560,000.00	1,657,287.33
Accounts receivable	66,327,369.54	49,337,894.17
Prepayments	20,436.24	4,006,976.33
Other receivables	292,318,045.18	271,488,372.56
Inventories	10,873,113.82	10,310,137.01
Other current assets	90,015,384.60	9,119.50
Total current assets	660,528,819.08	649,302,645.83
Non-current assets:		
Long-term accounts receivable	368,000,000.00	368,000,000.00
Long-term equity investments	182,159,214.87	182,159,214.87
Fixed assets	9,215,264.97	8,945,573.05
Construction in progress	7,217,656.22	5,903,783.88
Intangible assets	37,795,910.84	38,238,828.16
Deferred income tax assets	73,244.75	73,244.75
Other non-current assets	6,620,000.00	6,620,000.00
Total non-current assets	611,081,291.65	609,940,644.71
Total Assets	1,271,610,110.73	1,259,243,290.54
Current liabilities:		
Short-term loans	154,000,000.00	159,000,000.00
Notes payable	–	5,300,000.00
Accounts payable	6,397,470.50	7,212,191.94
Receipts in advance	1,500.00	1,500.00
Staff cost payable	1,136,597.53	969,217.42
Tax payable	574,569.18	863,280.51
Interest payable	554,556.42	316,501.42
Dividend payable	31,585,785.50	–
Other payables	118,414.25	8,718,583.23
Other current liabilities	400,000.00	800,000.00
Total current liabilities	194,768,893.38	183,181,274.52
Non-current liabilities:		
Total liabilities	194,768,893.38	183,181,274.52
Shareholders' Equity:		
Share capital	315,857,855.00	315,857,855.00
Capital reserve	661,553,840.72	661,553,840.72
Surplus reserve	61,517,561.92	61,517,561.92
Retained earnings	37,911,959.71	37,132,758.38
Total Shareholders' Equity	1,076,841,217.35	1,076,062,016.02
Total Liabilities and Shareholders' Equity	1,271,610,110.73	1,259,243,290.54

INCOME STATEMENT OF THE PARENT COMPANY

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
Revenue	22,279,464.07	18,184,099.31
Less: Operating costs	15,099,088.67	13,225,541.40
Business taxes and surcharges	100,585.92	79,261.50
Selling expenses	200,495.09	212,716.97
General and administrative expenses	7,500,937.39	3,579,972.95
Financial expenses	1,162,146.07	225,526.94
Add: Investment gains	34,981,917.80	25,000,000.00
Operating profit	33,198,128.73	25,861,079.55
Add: Non-operating income	50,793.10	12,310.00
Including: gain on disposal of non-current assets	9,338.00	–
Less: Non-operating expenses	23,349.36	26,214.86
Total profit	33,225,572.47	25,847,174.69
Less: Income tax expenses	860,585.64	245,556.43
Net profit	32,364,986.83	25,601,618.26
Total comprehensive income	32,364,986.83	25,601,618.26

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Current period				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	315,857,855.00	661,553,840.72	61,517,561.92	37,132,758.38	1,076,062,016.02
2. Balance at the beginning of year	315,857,855.00	661,553,840.72	61,517,561.92	37,132,758.38	1,076,062,016.02
3. Increase/(decrease) during the period	-	-	-	779,201.33	779,201.33
(1) Total comprehensive income	-	-	-	32,364,986.83	32,364,986.83
(2) Appropriation to profits	-	-	-	-31,585,785.50	-31,585,785.50
1. Distribution to shareholders	-	-	-	-31,585,785.50	-31,585,785.50
4. Balance at the end of year	<u>315,857,855.00</u>	<u>661,553,840.72</u>	<u>61,517,561.92</u>	<u>37,911,959.71</u>	<u>1,076,841,217.35</u>

Item	Last period				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	277,657,855.00	41,590,963.68	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) Total comprehensive income	-	-	-	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>

STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	9,198,979.98	12,355,314.09
Cash received relating to other operating activities	3,024,400.55	1,756,289.79
Sub-total of cash inflow	12,223,380.53	14,111,603.88
Cash paid for purchase of goods and acceptance of services	14,646,751.12	6,701,724.38
Cash paid to and on behalf of employees	2,771,288.80	2,498,739.18
Payment of taxes and levies	2,727,329.41	1,421,804.00
Cash paid relating to other operating activities	37,050,309.58	8,105,220.77
Sub-total of cash outflow	57,195,678.91	18,727,488.33
Net cash flow from operating activities	-44,972,298.38	-4,615,884.45
2. Cash flows from investing activities:		
Cash received from return of investments	500,000,000.00	10,467,600.00
Cash received from investment gains	34,981,917.80	30,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	13,000.00	–
Sub-total of cash inflow	534,994,917.80	40,467,600.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets	1,976,653.09	31,334,791.30
Cash paid for investments	590,000,000.00	–
Sub-total of cash outflow	591,976,653.09	31,334,791.30
Net cash flow from investing activities	-56,981,735.29	9,132,808.70
3. Cash flows from financing activities:		
Cash received from borrowings	140,000,000.00	40,000,000.00
Sub-total of cash inflow	140,000,000.00	40,000,000.00
Cash paid for debt repayments	145,000,000.00	20,000,000.00
Cash paid for distribution of dividends, profit or interest expenses	3,254,355.56	2,998,733.31
Cash paid relating to other financing activities	280,000.00	373,592.23
Sub-total of cash outflow	148,534,355.56	23,372,325.54
Net cash flow from financing activities	-8,534,355.56	16,627,674.46
4. Effect of changes in foreign exchange rate on cash and cash equivalents	–	–
5. Net increase in cash and cash equivalents	-110,488,389.23	21,144,598.71
Add: Opening balance of cash and cash equivalents	310,902,858.93	10,360,957.46
6. Closing balance of cash and cash equivalents	200,414,469.70	31,505,556.17

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

1. GENERAL

Zhejiang Shibao Company Limited (hereafter referred to as the “Company”) is a joint stock limited company approved by the document (ZHE SHANG SHI [2004] 37) (浙上市[2004]37號) issued by the Listing Affair Team (上市工作領導小組) of the People’s Government of Zhejiang Province. The Company was established by ways of promotion jointly by Zhejiang Shibao Holding Group Co., Ltd., Wu Wei Xu (吳偉旭), Wu Lang Yue (吳琅躍), Du Chun Mao (杜春茂) and Chen Wen Hong (陳文洪) on the basis of Zhejiang Shibao Steering Gear Co., Ltd.. The Company was registered and incorporated with Zhejiang Administration for Industry & Commerce on 30 April 2004. Its business license registration number is 330000400002163. The current share capital of the Company is RMB315,857,855 divided into a total of 315,857,855 shares (RMB1 for each share). Of which, shares with selling restrictions include 214,143,855 A shares and 0 H shares; shares without selling restrictions include 15,000,000 A shares and 86,714,000 H shares.

According to the approval of ZHENG JIAN GUO HE ZI [2005] 22 (證監國合字[2005]22號) issued by the China Securities Regulatory Commission, the Company completed the initial public offer of H Shares and was listed on the GEM of the Hong Kong Stock Exchange on 16 May 2006. On 9 March 2011, the Company’s H Shares were approved to be listed and traded on the Main Board of the Hong Kong Stock Exchange.

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

The Company operates in the automotive components manufacturing industry. The business scope of the Company is: manufacture and sales of automotive components, sales of metal materials, electromechanical products and electronic products, sales of automobiles. (As for those projects pending approval according to laws, the operations of them can be commenced upon approval of the relevant authorities.)

The Company has included 7 subsidiaries to the consolidated financial report, i.e. Hangzhou Shibao, Hangzhou New Shibao, Jilin Shibao, Siping Steering, Beijing Autonics, Wuhu Sterling and Erdos Sterling. Details refer to the change of scope of consolidation and equity interests in other entities of the notes to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of Preparation

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

(2) Evaluation on ability of continuing operation

The Company does not have any event or circumstance that arises material concerns about assumptions on continuing operation within twelve months from the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Important Note: The Company has made specific accounting policies and accounting estimates regarding making provisions for the bad-debts on receivables, depreciation of fixed assets, amortisation of intangible asset and income recognition according to actual production and operation features.

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

The financial statements of the Company have been prepared in accordance with the requirements of CASBE, which have truly and fully reflected the information of the Company, including the financial position, results of operations and cash flows.

(2) Accounting Year

The accounting year is from 1 January to 31 December.

(3) Operating Cycle

The operating business cycle of the Company is relatively shorter. A period of 12 months is taken to identify the current nature of assets and liabilities.

(4) Functional Currency

Renminbi ("RMB") is adopted as functional currency.

(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 recognised at their carrying amounts at the combination date as recorded by the party being combined. The Company adjusts its capital reserves by the difference between the carrying amount of the ownership rights in the acquiree accounted for in the consolidated financial statement of the ultimate controlling party and the carrying amount of the consideration paid for the business combination (or aggregate carrying amount of the shares issued). If the balance of the capital reserve is insufficient for the written-off, then the retained profits will be adjusted accordingly.

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 recognised 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 recognised in current profit or loss.

(6) Preparation Basis of Consolidated Financial Statements

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(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 recognised 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 recognised in current profit or loss or capital reserves.

(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 at initial recognition), 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 at initial recognition) and other financial liabilities.

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

The Company recognises 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 recognised at fair value. For financial assets or financial liabilities at FVTPL, the relevant transaction costs are directly recognised in current profit or loss; for other financial assets or financial liabilities, the relevant transaction costs are recognised in their initial recognition amount.

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial Instruments *(continued)*

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

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

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 recognised, with the received consideration recognised as a financial liability. When the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may (1) derecognise the financial asset and recognise any associated assets and liabilities if control of the financial asset has not been retained; or (2) recognise the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability if control has been retained.

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(9) Financial Instruments (continued)

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

The Company recognizes the fair values of relevant financial assets and financial liabilities by adopting valuation techniques which are currently applicable and have sufficient data available and other information support. The Company categorizes inputs of the valuation techniques into the following levels:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (2) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the relevant asset or liability, either directly or indirectly; including similar quoted prices of assets and liabilities in active markets, the same or similar quoted prices of assets and liabilities in non-active markets, other significant inputs other than quoted prices such as observable interest rate curves and return curves in the normal quoting intervals, and the inputs verified by the markets etc;
- (3) Level 3 inputs are unobservable inputs for the relevant asset or liability. including interest rate, volatility in equity prices, future cash flows in respect of the abandoned obligations committed in the business combination, financial predictions using own data etc. which cannot be directly observed or verified by observable market data.

5. Assessment and provision for impairment on financial assets

- (1) The carrying amount of financial assets, other than financial assets at FVTPL, is assessed at the balance sheet date. Provision for impairment is made when there is objective evidence indicating that a financial asset is impaired.
- (2) For held-to-maturity investments, loans and receivables, the financial assets with separate significant amounts are differentiated for the purpose of single impairment test. 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. In the event that the impairment test shows it is impaired, the impairment losses are recognized according to the difference between the carrying amount and the current value of future cash flows.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial Instruments *(continued)*

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

(3) 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 reorganisation;
 - 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, and significant adverse changes in technologies in, or markets, economic or legal environments where the operation of the investee locates resulting in probable non-recovery of the Company's investment cost.

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 other comprehensive revenue is removed from equity and recognised in impairment loss. If after an impairment loss has been recognised 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 recognised, the previously recognised impairment loss is reversed and recognised 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 other comprehensive revenue directly.

When the available-for-sale investment instruments measured by cost are impaired, the impairment losses are recognized as the difference between the carrying amount of the investment instruments and the current value identified as discounted future cash flows according to the then market return of the similar financial assets and the losses are recognized in profit or loss. Once the impairment losses are recognized, it cannot be reversed.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(10) Receivables

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

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

2. Receivables for which collective bad debt provision is made

Basis for determining the group	
Groups of receivables which are individually insignificant but have significant credit risks	The amount of receivables are not more than RMB1 million but overdue for more than one year and the amount of receivables are not more than RMB1 million without any impairment in individual tests but overdue for more than one year.

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

3. Individually insignificant receivables for which separate bad-debt provision is made

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(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

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

4. Inventory system

The Company maintains a perpetual inventory system.

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

(1) *Low-value consumables*

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

(2) *Packaging materials*

Packaging materials are amortised in full when received for use.

(12) Assets classified as held-for-sale

The Company classifies the non-current assets (excluding financial assets) which meet the following conditions as held-for sale assets: 1. The components should be able to be immediately sold currently only according to usual or common terms of selling similar components. 2. The resolutions have been passed regarding the disposal of such components. 3. An irrevocable transfer agreement has been entered into with the transferee. 4. The transfer is very likely to be completed within one year.

(13) Long-Term Equity Investments

1. Judgement on joint control and significant effects

Joint control is recognized as control held for a certain arrangement under the relevant agreement, the relevant activity of which should be unanimously agreed by the parties sharing the control. The influence is deemed as significant if there involves the power of participating in decision making on the financial and operational policies of the investee, but the power cannot control or jointly control with other parties the formulation of the policies.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

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

2. Determination of investment cost

- (1) If formed through corporate merge under joint control, and the consideration for such combination is settled by cash payment, transfer of non-cash assets, debt obligation and 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 showed in the consolidated financial statement of the equities under common control at the combination date. The difference between the initial investment cost of the long term equity investment and the carrying amount of paid combined consideration or 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.

The Company realizes long-term equity investment formed through business combination under joint control by trading step by step and judges whether the trade belongs to "package deal".

For the trade which belongs to "package deal", the trades are handled as one trade which has obtained the right to control. For the trades which do not belong to "package deal", the initial investment cost shall be the share of the carrying amount shown on the consolidated financial statement of the equities under common control based on the net assets of the party being combined after combination at the combination date. The difference between the initial investment cost of long-term equity investment at the combination date and the carrying amount of the long-term equity investment before combination plus the carrying amount of new share consideration further obtained at the combination date 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.
- 2) To judge whether the transaction is a "package deal" for the purpose of the consolidated financial statement.

For the transaction which is categorized as a "package deal", the accounting treatment will be applied on it as if they were of a transaction obtaining the right to control the acquiree. For those which is not categorized as a "package deal", the equity interest of the acquiree held before the date of acquisition is re-measured according to its fair value at the date of acquisition. The difference between the fair value and its carrying amount is recognized as investment income of the applicable period. If the equity interests of the acquiree held before the date of acquisition involves other comprehensive income accounted for using equity accounting method, they are transferred to income for the period covering the date of acquisition together with the relevant other comprehensive income, excluding other comprehensive income resulting from changes in net liabilities or net assets arising from the designated benefit plan through the re-measurement on the investee.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

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

2. Determination of investment cost *(continued)*

- (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. For those obtained through debt restructuring, the initial investment cost is recognized pursuant to CASBE No.12 – debt restructuring. For those obtained through exchange of non-monetary assets, the initial investment cost is recognized pursuant to CASBE No. 7 – exchange of non-monetary assets.

3. Subsequent measurement and recognition

When the Company controls the investee, a long-term equity investment is accounted for using the cost method. The cost method is used for long-term equity investment of associates and joint ventures.

4. Accounting treatment on disposal of investment in a subsidiary to loss of its right to control in stages through various transactions

(1) Separate financial statements

For equity interests disposed of, the difference between the carrying amount and the actual consideration obtained is recognized as profit or loss. For the remaining equity interests, those which are still entitled to a significant influence on the investee or perform joint control with other parties are accounted for using equity method. Those which do not control, jointly control or have a significant influence on the investee are recognized as available-for-sale financial assets and accounted for pursuant to the relevant regulations of CASEB No. 22 – Recognition and measurement of financial instruments.

(2) Consolidated financial statements

- 1) Accounting treatment on disposal of investment in a subsidiary to loss of its right to control in stages through various transactions that are not categorized as “package deal”

Prior to the loss of right to control, the capital reserve (capital premium) is adjusted with the difference between the consideration of the disposal and the entitled share of the net assets of the subsidiary that would have been entitled to by the disposed long-term equity investment and continuously accounted for from the acquisition date or combination date. If the balance of the capital premium is insufficient for the written-off, then the retained profits will be written off accordingly.

When the right to control the former subsidiary is lost, the remaining equities are re-measured at fair value at the date when the right to control is lost. The sum of the consideration obtained from disposal and the fair value of the remaining equity interests less the share of the net assets of the subsidiary that would have been entitled to and continuously accounted for according to the original shareholding percentage from the acquisition date or combination date is recognized as investment income for the period covering the date of loss of control, offsetting the goodwill at the same time. Other comprehensive income related to the equity investment in the former subsidiary shall be transferred to the investment income for the period covering the date of loss of control.

- 2) Disposal of investment in a subsidiary to loss of its right to control in stages through various transactions that are not categorized as “package deal”

The transactions are treated as one single transaction of disposal of a subsidiary and loss of right to control. However, prior to the loss of right to control, the difference between each of the consideration of disposal and the share of net assets of that subsidiary that would have been entitled to by the disposed investment is recognized as other comprehensive income in the consolidated financial statements and transferred to profit or loss for the period covering when the right of control is lost.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (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, and is measured at the actual cost incurred till it is ready for intended use.

2. Depreciation of fixed assets

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

(15) Construction in Progress

1. Construction-in-progress is recognised when the inflow of economic benefits is probable and the cost can be reliably measured, and is measured at the actual cost incurred till it is ready for intended use.
2. Construction-in-progress is transferred into fixed assets when it is ready for its intended use based on the actual cost. For a completed project ready for intended use but with final account unsettled, the asset is transferred into fixed assets based on estimated value. After final account of the project has been settled, the Company shall base on actual cost to make adjustment on the previous estimated value, but need not to adjust the depreciation retrospectively.

(16) Borrowing Costs

1. Capitalization of borrowing costs

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

2. Timing of borrowing costs capitalization

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(16) Borrowing Costs (continued)

3. Capitalization rate and amount of borrowing costs

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

(17) Intangible Assets

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

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

3. 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) Partial long-term asset impairment

For long-term assets such as long-term equity investment, fixed assets, construction in progress and intangible assets with definite useful lives, when there is evidence at the balance sheet date that the assets are impaired, the recoverable amounts are estimated. For goodwill arising from business combination, whether there is evidence of impairment or not, impairment test is conducted annually. Impairment test is performed on goodwill together with its relevant asset group or asset group combination.

The result of the measurement of the recoverable amounts shows that, if the recoverable amount of the long-term asset is lower than its carrying amount, the carrying amount of the asset is written down to the recoverable amount. The amount written down is recognized as impairment loss through profit or loss and is provided for the corresponding asset impairment.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(19) Employee Benefits

1. Employee benefits include short-term benefits, post-employment benefits, dismissal benefits and other long-term employee benefits.

2. Accounting treatment for short-term remuneration

During the accounting period when the staff is providing services for the Company, the actual short-term remuneration is recognized as liabilities and charged over profit or loss or relevant cost of asset for the current period.

3. Accounting treatment of post-employment benefits

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. Meanwhile, the obligation arising from the defined benefit plan is discounted to determine the present value of such obligation under the defined benefit plan and the service cost for the current period;

2) Where there are assets in the defined benefit plan, the deficit or surplus from the present value of the defined benefit plan less the fair value of the defined benefit plan are recognised as a net debt or asset of a defined benefit plan. Where there are surplus in the defined benefit plan, the lower of the surplus of the defined benefit plan and the upper limit of the assets will be used to calculate the net assets of the defined benefit plan;

3) At the end of the period, the cost of employee benefits from the defined benefit plan will be recognised 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 recognised 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 recognised in other comprehensive income and shall not be reversed to the profit or less in subsequent accounting periods, but the amounts recognised in other comprehensive income can be transferred within the scope of interests.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(19) Employee Benefits *(continued)*

4. Accounting treatment of dismissal benefits

When provide dismissal benefits to the employee, the employee benefits debts arising from the recognition of dismissal will be recognised 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 recognised relevant costs or expenses associated with the reorganization of the payment of the dismissal benefits.

5. Accounting treatment of other long-term benefits

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. In order to simplify the relevant accounting treatment, the generated staff remuneration is recognized as service cost and the total net amount of the components such as net interest amount of net liabilities or net assets in terms of other long-term employees' benefits and changes arising from re-measuring the net liabilities or net assets in terms of other long-term employees' benefits is recognized as profit or loss or relevant cost of asset for the current period.

(20) Provision for liability

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

(21) Revenue

1. Recognition of revenue

(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 recognised 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.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(21) Revenue *(continued)*

1. Recognition of revenue *(continued)*

(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 recognised 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 recognised 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 recognised 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 recognised 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.

(22) Government Grant

1. Judgment basis and accounting methods on the government subsidies relating to assets

The government subsidies obtained by the Company to purchase or construct long-term assets or otherwise are government subsidies pertinent to assets. 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. However, the government subsidies measured in nominal amount are directly recognised in the then profit or loss.

2. Judgment basis and accounting methods on the government subsidies relating to revenue

Other than government subsidies pertinent to assets, other government subsidies are government subsidies pertinent to income. 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 recognised. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognised in current profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(23) Deferred Tax Assets and Deferred Tax Liabilities

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

(24) Operating leases

When the company acts as lessee, rental expenses under operating leases are recognised 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 recognised 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 capitalised 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.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(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 recognised in the period in which the estimate is revised and in any future periods affected.

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

1. Recognition of deferred tax assets

As stated in Note 3(23) to the Financial Statements, deferred tax assets are recognised 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 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) based on the tax rate applicable to the period when the asset is recovered or the liability is settled. Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. At the balance sheet date, deferred tax assets unrecognised in prior periods are recognised to the extent that there is obvious evidence that it has become probable that sufficient taxable profit will be available in subsequent periods against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax asset can be utilized. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.

2. Provision for doubtful debt

As stated in Note 3(10) to the Financial Statements, the Company conducts individual impairment tests for receivables that are individually significant and are provided for doubtful debts on individual basis, provision for doubtful debts will then be made for the difference if the present value of future cash flow is lower than its carrying amounts; For receivable portfolios that are individually insignificant but with relatively high credit risk, provision for doubtful debts will be made for the difference if the present value of future cash flow is lower than its carrying amounts, based on the structure of the receivable portfolio and similar credit risk characteristics (debtors' ability to settle outstanding amounts based on contracted terms) and taking into account the historical losses and the expected potential losses arising from the debtor's economic conditions; For receivables that are individually insignificant but are provided for doubtful debts on individual basis, individual impairment tests will be conducted and provision for doubtful debts will then be made for the difference if the present value of future cash flow is lower than its carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(25) Significant Accounting Judgments and Estimates (continued)

3. Provision for inventory obsolescence

As stated in Note 3(11) to the Financial Statements, as at the balance sheet date, the Company's inventories are stated at the lower of cost and net realizable value, provision for inventory obsolescence will be made based on the surplus of cost over net realizable value of inventories on an individual basis; For inventories for direct sales, net realizable value is recognised 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 recognised at the estimated selling price of the finished goods produced in the ordinary course of business, less estimated costs to be incurred upon completion, costs necessary to make the sale and relevant taxes; As at the balance sheet date, for an item of inventories where a portion is subject to contractual price while the remainder is not, their net realizable values are determined and compared with their corresponding costs respectively to recognize the amount of provision, or reversal of provision, for inventory obsolescence.

4. Long-term asset impairment

As stated in Note 3(18) to the Financial Statements, for long-term assets such as long-term equity investment, fixed assets, construction in progress and intangible assets with definite useful lives, when there is evidence that the assets are impaired as at the balance sheet date, the recoverable amount is estimated. For goodwill arising from business combination, whether there is evidence of impairment or not, impairment test is conducted annually. Impairment test is performed on goodwill together with its relevant asset group or asset group combination. The result of the measurement of the recoverable amounts shows that, if the recoverable amount of the long-term asset is lower than its carrying amount, the carrying amount of the asset is written down to the recoverable amount. The amount written down is recognized as impairment loss through profit or loss and is provided for the corresponding asset impairment.

4. 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)
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): Hangzhou Shibao, a controlling subsidiary, enjoys the policy of "exempt, credit, refund" for export goods with an export tax refund rate of 17%.

Details of income tax subjected:

Name of entity	Income tax rate
Hangzhou Shibao	15%
Hangzhou New Shibao	15%
Siping Steering	15%
Others	25%

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

4. TAXATION (continued)

(2) Tax concession and approval documents

1. According to the letter regarding Zhejiang 2014 filing the First Innovative and High-tech Corporations issued by Team-in-day Office of National High-tech Recognition and Management (CTP No. [2015] 29), the controlling subsidiary, Hangzhou Shibao Auto Steering Gear Co., Ltd. was recognised as an Innovative and High-tech Corporation during the current period and obtained the Certificate of Innovative and High-tech Corporation (Certificate No. GR201433000685) with a valid period from 2014 to 2016. It is subjected to an income tax rate of 15% during this period.
2. According to the letter regarding Zhejiang 2014 filing the First Innovative and High-tech Corporations issued by Team-in-day Office of National High-tech Recognition and Management (CTP No. [2015] 29), the controlling subsidiary, Hangzhou New Shibao Electric Power Steering Co., Ltd. was recognised as an Innovative and High-tech Corporation during the current period and obtained the Certificate of Innovative and High-tech Corporation (Certificate No. GR201433000159) with a valid period from 2014 to 2016. It is subjected to an income tax rate of 15% during this period.
3. According to the Document (Ji Ke Ban Zi [2012] No.182) issued by the Department of Science and Technology, the Department of Finance, the Bureau of State Taxation and the Bureau of Local Taxation of Jilin province, Siping Steering Gear Co., Ltd., a controlling subsidiary of the Company, was recognized as a high-tech enterprise in 2012 with a valid period from 2012 to 2014. During the period under review, Siping Steering has applied for re-cognition as a high-tech enterprise. As at the date of this report, the review is in progress. Siping Steering is adopting a tax rate of 15% for income tax pre-declaration during the period under review.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Notes to the consolidated balance sheet

1. Cash on hand and at bank

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Cash	148,263.13	89,871.21
Bank deposits	465,822,585.22	742,767,890.27
Other monetary funds	6,147,781.89	17,556,145.17
Total	472,118,630.24	760,413,906.65
Include: total monetary funds deposited overseas	16,753.22	16,991.67

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

Other monetary funds at the end of the period represents the guarantee deposits of RMB6,147,781.89 for the issuance of the bank acceptance bills.

Monetary funds deposited overseas at the end of the period amounted to HKD21,243.99, equivalent to RMB16,753.22.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

2. Notes receivable

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	117,543,694.19	110,001,880.87
Total	117,543,694.19	110,001,880.87

(2) Notes receivable pledged at the end of the period

Item	Pledged amount at the end of the period
Bank acceptance bills (Note)	25,256,991.35
Sub-total	25,256,991.35

(Notes): Pledged as guarantee for issuance of bank acceptance bills.

(3) At the end of the period, the bills receivable that were not matured as at the balance sheet date but had been endorsed or discounted by the Company are as follows

Item	Amounts derecognized at the end of the period	Amounts not yet derecognized at the end of the period
Bank acceptance bills	165,446,949.43	–
Sub-total	165,446,949.43	–

(4) At the end of the period, bills receivable which are reversed accounts receivables because of drawer's failure to perform are as follows

Item	Amount of receivables at the end of the period
Bank acceptance bills	50,000.00
Sub-total	50,000.00

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

3. Accounts receivable

(1) Breakdown

1) Breakdown by types

Types	Balance at the end of the period				Book value
	Carrying amount		Provision for bad debts		
	Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	267,449,874.71	88.67	-	-	267,449,874.71
Individually insignificant but significant based on credit risk characteristics	4,245,531.35	1.41	2,383,578.15	56.14	1,861,953.20
Individually insignificant amount with bad debt provision on individual basis	29,937,343.98	9.92	-	-	29,937,343.98
Total	301,632,750.04	100.00	2,383,578.15	0.79	299,249,171.89

Types	Balance at the beginning of the period				Book value
	Carrying amount		Provision for bad debts		
	Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	300,972,826.63	90.97	-	-	300,972,826.63
Individually insignificant but significant based on credit risk characteristics	4,226,272.44	1.28	2,383,578.15	56.40	1,842,694.29
Individually insignificant amount with bad debt provision on individual basis	25,633,473.61	7.75	-	-	25,633,473.61
Total	330,832,572.68	100.00	2,383,578.15	0.72	328,448,994.53

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

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	(%)		Amount	(%)	
Within 1 year	288,892,708.71	95.78	-	320,244,690.89	96.79	-
1-2 years	8,694,667.43	2.88	375.00	7,199,611.43	2.18	38,049.52
2-3 years	654,396.47	0.22	28,124.63	320,434.76	0.10	126,836.40
Over 3 years	3,390,977.43	1.12	2,355,078.52	3,067,835.60	0.93	2,218,692.23
Sub-total	301,632,750.04	100.00	2,383,578.15	330,832,572.68	100.00	2,383,578.15

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

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

3. Accounts receivable (continued)

(1) Breakdown (continued)

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Receivables of sales payment from FAW-Car Co., Ltd. and others	267,449,874.71	-	-	Individual impairment test showed no risk was expected of balance recover
Sub-total	267,449,874.71	-	-	

4) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	4,245,531.35	56.14	2,383,578.15
Sub-total	4,245,531.35	56.14	2,383,578.15

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

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Receivables of sales payment from Beiqi Foton Automobile Co., Ltd. Beijing Ou Hui Bus Sub-company (北汽福田汽车股份有限公司北京歐輝客車分公司) and others	29,937,343.98	-	-	Individual impairment test showed no risk was expected of balance recover
Sub-total	29,937,343.98	-	-	

(2) There are no bad debts provision made, recovered or reversed during the period

(3) There are no receivables from products actually sold during the period

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

3. Accounts receivable (continued)

(4) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
FAW-Car Co., Ltd. (一汽轎車股份有限公司)	34,512,582.33	11.44	–
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	32,717,703.03	10.85	–
Tianjin FAW Xiali Automobile Co., Ltd. (天津一汽夏利汽車 股份有限公司)	20,246,417.10	6.71	–
SAZEH GOSTAR SAIPA CO. Zhejiang Zotye Automobile Co., Ltd. (浙江眾泰汽車製造 有限公司)	17,778,600.00	5.90	–
	15,663,548.55	5.19	–
Sub-total	120,918,851.01	40.09	–

4. Prepayments

(1) Ageing analysis

Ageing	Balance at the end of the period		Balance at the beginning of the period	
	Amount	(%)	Amount	(%)
Within 1 year	6,415,777.76	98.11	10,247,788.26	96.51
1-2 years	75,510.47	1.15	227,748.30	2.14
2-3 years	48,140.00	0.74	143,417.51	1.35
Total	6,539,428.23	100.00	10,618,954.07	100.00

(2) The five largest prepayments

Name	Carrying amount	Percentage of the total prepayments carrying amount (%)
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)	743,523.83	11.37
Shandong Kai Di Si Industry System Co., Ltd. (山東凱帝斯工業系統有限公司)	499,600.00	7.64
Sinopec Sales Co., Ltd. Zhejiang Hangzhou Oil Sub-company (中國石化銷售有限公司 浙江杭州石油分公司)	435,789.49	6.66
Jilin Province Electricity Co.,Ltd. Siping Power Supply Company (吉林省電力 有限公司四平供電公司)	321,377.31	4.92
Hangzhou Yuan Wei Machinery Manufacturing Co.,Ltd. (杭州遠威機械 製造有限公司)	240,531.68	3.68
Sub-total	2,240,822.31	34.27

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

5. Other receivables

(1) Breakdown

1) Breakdown by types

Types	Carrying amount		Balance at the end of the period		Book value
	Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	3,844,536.22	63.46	-	-	3,844,536.22
Individually insignificant but significant based on credit risk characteristics	596,416.05	9.85	24,237.64	4.06	572,178.41
Individually insignificant amount with bad debt provision on individual basis	1,617,013.49	26.69	-	-	1,617,013.49
Total	6,057,965.76	100.00	24,237.64	0.40	6,033,728.12

Types	Carrying amount		Balance at the beginning of the period		Book value
	Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	4,594,374.16	72.10	-	-	4,594,374.16
Individually insignificant but significant based on credit risk characteristics	480,530.89	7.54	24,237.64	5.04%	456,293.25
Individually insignificant amount with bad debt provision on individual basis	1,297,753.63	20.36	-	-	1,297,753.63
Total	6,372,658.68	100.00	24,237.64	0.38%	6,348,421.04

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

5. Other receivables (continued)

(1) Breakdown (continued)

2) Ageing analysis of other receivables

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	(%)		Amount	(%)	
Within 1 year	3,794,685.23	62.64	-	3,392,127.79	53.23	-
1-2 years	231,671.46	3.82	-	68,321.82	1.07	-
2-3 years	1,959,841.81	32.35	-	1,351,324.21	21.21	-
Over 3 years	71,767.26	1.19	24,237.64	1,560,884.86	24.49	24,237.64
Sub-total	6,057,965.76	100.00	24,237.64	6,372,658.68	100.00	24,237.64

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Export tax refund and others (應收出口退稅款等款項)	3,844,536.22	-	-	Individual impairment test showed no risk was expected of balance recover
Sub-total	3,844,536.22	-	-	

4) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	596,416.05	4.06	24,237.64
Sub-total	596,416.05	4.06	24,237.64

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Other receivables of individual imprest and others	1,617,013.49	-	-	Individual impairment test showed no risk was expected of balance recover
Sub-total	1,617,013.49	-	-	

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

5. Other receivables (continued)

(2) There are no bad debts provision made, recovered or reversed during the period

(3) There are no receivables from products actually sold during the period

(4) Classification by nature of other receivables

Nature of the receivables	Balance at the end of the period	Balance at the beginning of the period
Land transfer	–	2,094,374.16
Export tax refund	2,444,536.22	–
Imprest	1,910,509.00	2,925,652.50
Provisional borrowings	1,018,430.50	747,356.80
Security deposits	452,481.00	270,559.00
Others	232,009.04	334,716.22
Sub-total	6,057,965.76	6,372,658.68

(5) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Ageing	Percentage of other receivables carrying amount (%)	Provision for bad debts
Export tax refund (出口退稅)	Export tax refund	2,444,536.22	Within 3 months	40.35	–
Siping Tiedong Economic Development Zone Administrative Committee (四平鐵東經濟開發區管理委員會)	Imprest	1,400,000.00	2-3 years	23.11	–
Siping City Dong Da Industry & Trading Co., Ltd. (四平市東達工貿有限公司)	Imprest	216,152.50	2-3 years	3.57	–
Cai Li Ming (蔡黎明)	Imprest	194,356.50	Within 1 year, 1-2 years	3.21	–
Yiwu City Housing and Urban & County Construction Bureau (義烏市住房和城鄉建設局)	Security deposits	187,059.00	Within 1 year	3.09	–
Sub-toal		4,442,104.22		73.33	–

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

6. Inventories

(1) Breakdown

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Raw materials	87,759,364.21	–	87,759,364.21	79,170,222.67	–	79,170,222.67
Work-in-progress	27,562,668.35	–	27,562,668.35	33,369,857.42	–	33,369,857.42
Finished goods	92,550,904.23	418,291.47	92,132,612.76	88,423,103.48	508,601.98	87,914,501.50
Low-value consumables	1,461,970.91	–	1,461,970.91	1,695,122.33	–	1,695,122.33
Total	<u>209,334,907.70</u>	<u>418,291.47</u>	<u>208,916,616.23</u>	<u>202,658,305.90</u>	<u>508,601.98</u>	<u>202,149,703.92</u>

(2) Provision

1) Breakdown

Item	Balance at the beginning of the period	Increase during the period		Decrease during the period		Balance at the end of the period
		Provision	Others	Reversal	Transfer	
Finished goods	508,601.98	418,291.47	–	–	508,601.98	418,291.47
Sub-total	<u>508,601.98</u>	<u>418,291.47</u>	<u>–</u>	<u>–</u>	<u>508,601.98</u>	<u>418,291.47</u>

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

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

7. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Bank wealth management products	210,000,000.00	–
Value added tax recoverable	8,805,158.47	7,308,026.91
Prepaid expenses	476,424.30	831,830.49
Total	<u>219,281,582.77</u>	<u>8,139,857.40</u>

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

8. Fixed assets

Item	Buildings and structures	Equipment	Transportation vehicles	Other office equipment and others	Total
Cost					
Balance at the beginning of the period	190,298,022.28	480,514,226.17	23,753,123.57	16,060,241.92	710,625,613.94
Increase during the period	1,275,978.46	32,506,454.74	920,711.23	1,316,520.84	36,019,665.27
1) Purchase	50,088.35	2,283,816.14	150,256.34	831,563.58	3,315,724.41
2) Transfer from construction in progress	1,225,890.11	30,222,638.60	770,454.89	484,957.26	32,703,940.86
Decrease during the period	–	10,454,677.45	2,686,333.05	–	13,141,010.50
1) Disposal	–	10,454,677.45	2,686,333.05	–	13,141,010.50
Balance at the end of the period	<u>191,574,000.74</u>	<u>502,566,003.46</u>	<u>21,987,501.75</u>	<u>17,376,762.76</u>	<u>733,504,268.71</u>
Accumulated depreciation					
Balance at the beginning of the period	41,464,158.51	193,145,332.93	15,545,441.47	10,214,129.99	260,369,062.90
Increase during the period	2,788,427.75	21,990,709.53	1,403,365.30	658,067.69	26,840,570.27
1) Provision	2,788,427.75	21,990,709.53	1,403,365.30	658,067.69	26,840,570.27
Decrease during the period	–	8,524,875.16	1,917,767.63	–	10,442,642.79
1) disposal	–	8,524,875.16	1,917,767.63	–	10,442,642.79
Balance at the end of the period	<u>44,252,586.26</u>	<u>206,611,167.30</u>	<u>15,031,039.14</u>	<u>10,872,197.68</u>	<u>276,766,990.38</u>
Provision					
Balance at the beginning of the period	825,717.39	245,524.61	–	–	1,071,242.00
Increase during the period	–	–	–	–	–
1) Provision	–	–	–	–	–
Decrease during the period	–	–	–	–	–
1) Disposal	–	–	–	–	–
Balance at the end of the period	<u>825,717.39</u>	<u>245,524.61</u>	<u>–</u>	<u>–</u>	<u>1,071,242.00</u>
Book value					
Book value at the end of the period	<u>146,495,697.09</u>	<u>295,709,311.55</u>	<u>6,956,462.61</u>	<u>6,504,565.08</u>	<u>455,666,036.33</u>
Book value at the beginning of the period	<u>148,008,146.38</u>	<u>287,123,368.63</u>	<u>8,207,682.10</u>	<u>5,846,111.93</u>	<u>449,185,309.04</u>

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

9. Construction in progress

(1) Breakdown

Project name	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
The precious casting and processing of automotive components project	8,281,057.10	-	8,281,057.10	5,758,557.10	-	5,758,557.10
The increase of production of power automotive steering gears project	6,507,085.39	-	6,507,085.39	19,530,203.77	-	19,530,203.77
Capacity expansion project of Hangzhou New Shibao	6,116,477.83	-	6,116,477.83	5,663,528.00	-	5,663,528.00
The research and development, examination and inspection and trial production centre of automotive steering gear system project	477,132.70	-	477,132.70	267,521.36	-	267,521.36
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	7,217,656.22	-	7,217,656.22	5,903,783.88	-	5,903,783.88
Other sundry projects	5,555,690.63	-	5,555,690.63	706,504.57	-	706,504.57
Total	34,155,099.87	-	34,155,099.87	37,830,098.68	-	37,830,098.68

(2) Movement during the period

Project name	Budget (RMB0,000)	Balance at the beginning of the period	Increase during the period	Transfer to fixed assets	Other decrease	Percentage of invested amount to budget (%)	Construction progress (%)	Accumulated amount of capitalized interests	Amount of capitalized interests during the period	Interest rate of capitalized interests during the period (%)	Source of fund	Balance at
												the end of the period
The precious casting and processing of automotive components project	235,364,100.00	5,758,557.10	2,522,500.00	-	-	16.07	16.00	3,029,442.84	-	-	Proceeds	8,281,057.10
The increase of production of power automotive steering gears project	181,234,700.00	19,530,203.77	15,742,803.98	28,765,922.36	-	62.63	60.00	2,957,831.01	-	-	Proceeds	6,507,085.39
Capacity expansion project of Hangzhou New Shibao	-	5,663,528.00	1,495,684.88	1,042,735.05	-	-	-	-	-	-	Internal fund	6,116,477.83
The research and development, examination and inspection and trial production centre of automotive steering gear system project	45,000,000.00	267,521.36	1,200,209.62	990,598.28	-	19.16	20.00	-	-	-	Proceeds	477,132.70
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	360,671,000.00	5,903,783.88	1,313,872.34	-	-	2.00	5.00	-	-	-	Proceeds	7,217,656.22
Other sundry projects	-	706,504.57	6,753,871.23	1,904,685.17	-	-	-	-	-	-	Internal fund	5,555,690.63
Total	822,269,800.00	37,830,098.68	29,028,942.05	32,703,940.86	-			5,987,273.85	-	-		34,155,099.87

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

10. Intangible assets

(1) Breakdown

Item	Land use right	Patented technology	Non-patented technology	Management software	Total
Cost					
Balance at the beginning of the period	105,204,617.43	1,281,666.67	48,696,372.12	2,936,584.15	158,119,240.37
Increase during the period	–	–	–	59,230.77	59,230.77
1) Purchase	–	–	–	59,230.77	59,230.77
Decrease during the period	–	–	–	–	–
1) Disposal	–	–	–	–	–
Balance at the end of the period	105,204,617.43	1,281,666.67	48,696,372.12	2,995,814.92	158,178,471.14
Accumulated amortization					
Balance at the beginning of the period	12,756,148.78	534,027.68	19,755,543.49	1,295,264.88	34,340,984.83
Increase during the period	1,099,493.37	64,083.32	3,439,580.38	222,791.58	4,825,948.65
1) Provision	1,099,493.37	64,083.32	3,439,580.38	222,791.58	4,825,948.65
Decrease during the period	–	–	–	–	–
1) Disposal	–	–	–	–	–
Balance at the end of the period	13,855,642.15	598,111.00	23,195,123.87	1,518,056.46	39,166,933.48
Book value					
Book value at the end of the period	91,348,975.28	683,555.67	25,501,248.25	1,477,758.46	119,011,537.66
Book value at the beginning of the period	92,448,468.65	747,638.99	28,940,828.63	1,641,319.27	123,778,255.54

11. Goodwill

(1) Original carrying amount of goodwill

Name of investee	Balance as at the beginning of the period	Arising from business combination during the period	Decrease during the period		Balance as at the end of the period
			Disposal	Others	
Wuhu Sterling	4,694,482.34	–	–	–	4,694,482.34
Total	4,694,482.34	–	–	–	4,694,482.34

(2) The process of goodwill impairment testing, parameters and the recognition method of impairment loss on 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

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

12. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets which are not offset

Item	Balance as at the end of the period		Balance as at the beginning of the period	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	2,383,578.15	386,834.62	2,383,578.15	386,834.62
Profits not realized from intra-group transactions	2,531,583.66	553,615.88	3,191,592.94	574,341.36
Deductible losses	12,080,158.98	3,020,039.74	12,080,158.98	3,020,039.74
Warranty expenses	5,309,028.62	796,354.29	4,729,517.73	709,427.66
Total	<u>22,304,349.41</u>	<u>4,756,844.53</u>	<u>22,384,847.80</u>	<u>4,690,643.38</u>

(2) Deferred income tax liabilities which are not offset

Item	Balance as at the end of the period		Balance as at the beginning of the period	
	Deductible temporary differences	Deferred income tax liabilities	Deductible temporary differences	Deferred income tax liabilities
Asset valuation surplus arising from business combination not under the common control	22,222,145.66	5,555,536.38	23,970,997.04	5,992,749.26
Total	<u>22,222,145.66</u>	<u>5,555,536.38</u>	<u>23,970,997.04</u>	<u>5,992,749.26</u>

(3) Deferred income tax assets or liabilities presented on a net basis after offsetting

Item	Offset amount of deferred income tax assets and liabilities at the end of the period	Remaining deferred income tax assets or liabilities after offset at the end of the period	Offset amount of deferred income tax assets and liabilities at the beginning of the period	Remaining deferred income tax assets or liabilities after offset at the beginning of the period
Deferred income tax assets	–	4,756,844.53	–	4,690,643.38
Deferred income tax liabilities	–	5,555,536.38	–	5,992,749.26

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

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

(4) Analysis of unrecognized deferred income tax assets

Item	Balance as at the end of the period	Balance as at the beginning of the period
Provision for decline in price of inventories	418,291.47	508,601.98
Deductible losses	66,545,658.74	62,340,923.78
Total	66,963,950.21	62,849,525.76

(5) Deductible losses from unrecognized deferred income tax assets will be matured in the following years

Year	Balance as at the end of the period	Balance as at the beginning of the period	Note
2015	860,023.39	1,300,024.96	
2016	12,922,371.46	12,922,371.46	
2017	16,081,930.77	17,333,411.00	
2018	13,181,402.00	13,181,402.00	
2019	17,603,714.36	17,603,714.36	
2020	5,896,216.76	–	
Sub-total	66,545,658.74	62,340,923.78	

13. Other non-current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Prepaid for purchase of long term assets	58,023,914.80	48,147,380.74
Deposit to fulfill the contract	6,620,000.00	6,620,000.00
Total	64,643,914.80	54,767,380.74

14. Short-term loans

Item	Balance at the end of the period	Balance at the beginning of the period
Credit loans	–	25,000,000.00
Guaranteed loans	199,000,000.00	229,000,000.00
Pledged loans	–	5,460,000.00
Secured loans	–	8,800,000.00
Total	199,000,000.00	268,260,000.00

All of the above short-term loans are bank loans with annual interest rate of 5.10% to 6.00%.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

15. Notes payable

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	34,965,087.14	65,791,655.53
Total	34,965,087.14	65,791,655.53

There are no mature but unpaid bill payables at the end of the period.

16. Accounts payable

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Purchase of inventory	208,164,413.84	227,460,702.08
Purchase of long term assets	10,445,325.88	9,734,541.11
Total	218,609,739.72	237,195,243.19

(2) The aging analysis of accounts payable is as follows:

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	210,389,270.86	227,240,010.38
1-2 years	5,649,656.17	6,228,720.50
2-3 years	1,205,646.54	2,820,597.66
Over 3 years	1,365,166.15	905,914.65
Total	218,609,739.72	237,195,243.19

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

17. Receipts in advance

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Receipts in advance from sales of goods	4,627,018.64	4,886,192.92
Total	4,627,018.64	4,886,192.92

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

17. Receipts in advance (continued)

(2) Age analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	3,601,681.02	3,303,735.46
1-2 years	1,025,337.62	1,582,457.46
Total	4,627,018.64	4,886,192.92

18. Staff costs payable

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Short-term remuneration	12,626,020.76	57,162,484.81	60,073,177.86	9,715,327.71
Post-employment benefits – established withdrawal and deposit plan	1,031,954.98	4,457,177.68	5,077,457.35	411,675.31
Total	13,657,975.74	61,619,662.49	65,150,635.21	10,127,003.02

(2) Breakdown of short-term remuneration

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Salaries, bonus, allowances and subsidies	11,287,589.52	48,546,164.51	51,699,391.27	8,134,362.76
Staff welfare	–	4,377,543.31	3,853,455.72	524,087.59
Social insurance	854,595.44	2,871,743.69	3,375,592.42	350,746.71
Including: Medical insurance	741,717.64	2,545,562.36	2,983,263.24	304,016.76
Work injury insurance	35,481.18	145,988.20	166,507.45	14,961.93
Maternity insurance	77,396.62	180,193.13	225,821.73	31,768.02
Housing funds	–	410,651.59	410,651.59	–
Labour union funds and employee education funds	483,835.80	956,381.71	734,086.86	706,130.65
Sub-total	12,626,020.76	57,162,484.81	60,073,177.86	9,715,327.71

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

18. Staff costs payable (continued)

(3) Breakdown of established withdrawal and deposit plan

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Basic pension insurance	902,960.61	4,187,396.04	4,720,249.24	370,107.41
Unemployment insurance	128,994.37	269,781.64	357,208.11	41,567.90
Sub-total	1,031,954.98	4,457,177.68	5,077,457.35	411,675.31

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.

19. Taxes payable

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax	116,284.18	1,368,796.19
Corporate income tax	5,858,988.42	3,697,094.82
Withhold of individual income tax	242,795.60	247,691.34
Urban maintenance and construction tax	78,906.12	295,372.88
Others	254,070.92	444,295.98
Total	6,551,045.24	6,053,251.21

20. Interests payable

Item	Balance at the end of the period	Balance at the beginning of the period
Interests payable for short-term loans	599,052.06	533,423.41
Interest of long-term borrowings with periodic payments of interest and return of principal at maturity	1,004,833.33	1,004,833.33
Total	1,603,885.39	1,538,256.74

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

21. Dividends payable

Item	Balance at the end of the period	Balance at the beginning of the period
Dividends for ordinary shares	31,585,785.50	–

22. Other payables

Item	Balance at the end of the period	Balance at the beginning of the period
Payable of temporary receipts	745,308.71	712,334.01
Deposits	200,050.00	600,050.00
Labour service company management fees	446,725.41	326,195.14
Others	76,264.52	590,274.03
Total	1,468,348.64	2,228,853.18

23. Non-current liabilities due within one year

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term loans due within one year	8,800,000.00	8,800,000.00
Total	8,800,000.00	8,800,000.00

Note: These loans represented the capital loans from the Management Committee of the Tiedong Economic Development Zone in Siping for a subsidiary, Jilin Shibao Machinery Manufacturing Co., Ltd., to expand production. The original borrowing period was 28 November 2011 to 28 November 2014. The Management Committee of the Tiedong Economic Development Zone in Siping has extended the repayment date to the end of 2015.

24. Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Deferred income-assets related government grants	4,417,705.65	4,417,705.65
Accrued expenses	10,631,337.59	8,056,197.68
Total	15,049,043.24	12,473,903.33

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

25. Long-term borrowings

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Special funds for treasury bonds	1,900,000.00	1,900,000.00
Total	1,900,000.00	1,900,000.00

26. Deferred income

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Reason
Government grants	30,178,729.37	–	2,208,852.81	27,969,876.56	–
Total	30,178,729.37	–	2,208,852.81	27,969,876.56	–

(2) Breakdown of government grants

Item	Balance at the beginning of the period	Addition of grants during the period	Amount included in non-operating income during the period	Other movement	Balance at the end of the period	Assets related/ income related
Special funds for adjustment and improvement project for traditional industry bases including the Northeast area	19,029,166.70	–	1,594,999.96	–	17,434,166.74	Assets related
Subsidy funds for the precious casting and processing of automotive components project	4,535,997.43	–	51,480.20	–	4,484,517.23	Assets related
Special funds for establishment of a platform for public services provided in foreign trading	2,144,687.50	–	182,589.30	–	1,962,098.20	Assets related
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	3,791,200.00	–	324,960.00	–	3,466,240.00	Assets related
Heavy load hydraulic rack-and-pinion steering gear for high class market	449,244.40	–	38,506.68	–	410,737.72	Assets related
Subsidies for R&D equipment	228,433.34	–	16,316.67	–	212,116.67	Assets related
Total	30,178,729.37	–	2,208,852.81	–	27,969,876.56	

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(1) Notes to the consolidated balance sheet (continued)

27. Share capital

	Balance at the beginning of the period	Issuance of new shares	Increase/(decrease) during the period				Balance at the end of the period
			Bonus shares	Transfer from reserves	Others	Sub-total	
Total of shares	315,857,855.00	-	-	-	-	-	315,857,855.00

28. Capital reserve

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Share premium	653,567,692.72	-	-	653,567,692.72
Other capital reserve	6,444,389.04	-	-	6,444,389.04
Total	660,012,081.76	-	-	660,012,081.76

29. Surplus reserve

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory reserve funds	121,377,588.47	-	-	121,377,588.47
Total	121,377,588.47	-	-	121,377,588.47

30. Retained earnings

Item	Balance for the current period	Balance for the corresponding period last year
Retained earnings at the end of last year before adjustment	323,380,540.91	309,696,780.40
Retained earnings at the beginning of the year after adjustment	323,380,540.91	309,696,780.40
Add: Net profit attributable to equity holders of the Parent	36,109,760.10	27,781,320.27
Less: Dividends payable	31,585,785.50	22,212,628.40
Retained earnings at the end of the period	327,904,515.51	315,265,472.27

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement

1. Revenue/cost of sales

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Revenue from main business	440,326,133.52	325,950,419.81	393,740,233.75	286,247,804.94
Revenue from other business	2,397,330.12	173,020.61	939,710.25	596,004.02
Total	442,723,463.64	326,123,440.42	394,679,944.00	286,843,808.96

2. Business taxes and surcharges

Item	Balance for the current period	Balance for the corresponding period last year
Urban maintenance and construction tax	1,570,764.45	1,318,467.64
Education surcharge	682,585.91	567,911.07
Local education surcharge	453,238.47	385,174.59
Total	2,706,588.83	2,271,553.30

3. Sales expenses

Item	Balance for the current period	Balance for the corresponding period last year
Transportation cost	9,262,078.65	9,330,615.03
Warranty fee	4,548,541.76	6,153,026.76
Wages, welfare and bonuses	4,117,273.68	3,508,515.89
Travelling expenses	1,741,188.60	1,131,658.67
Agent fee	1,544,004.00	1,339,871.57
Entertainment charge	1,435,466.85	1,225,422.32
Depreciation of fixed assets	246,862.00	248,133.44
Others	2,009,464.37	2,324,750.87
Total	24,904,879.91	25,261,994.55

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

4. General and administration expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	14,413,377.44	14,620,115.20
Research and development expenses	16,481,132.68	14,121,969.06
Office cost	3,505,225.62	3,371,801.29
Professional service fee	4,211,912.67	1,124,981.68
Depreciation of fixed assets	2,319,015.33	2,326,118.70
Amortization of intangible assets	3,667,109.87	4,821,786.52
Other taxation	2,713,132.12	2,572,814.63
Travelling expenses	1,517,141.70	1,176,983.09
Entertainment charge	1,165,871.97	880,303.27
Others	1,526,923.09	709,437.15
Total	51,520,842.49	45,726,310.59

5. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	5,602,736.22	7,519,120.27
Interest income	-1,685,209.47	-302,143.56
Other	1,015,967.50	575,483.49
Total	4,933,494.25	7,792,460.20

6. Assets impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debts losses	-	-88,166.80
Provision for inventories losses	418,291.47	1,052,906.66
Total	418,291.47	964,739.86

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

7. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Gains from bank wealth management products	6,600,246.57	–
Total	6,600,246.57	–

8. Non-operating income

(1) Breakdown

Item	Balance for this period	Balance for the same period last year	Amount recognized as non-recurring gain and loss during the period
Total gains from disposal of non-current assets	116,510.35	49,836.15	116,510.35
Including: gains from disposal of fixed assets	116,510.35	49,836.15	116,510.35
Government grants	3,413,852.81	3,553,610.78	3,413,852.81
Others	453,193.64	97,001.00	453,193.64
Total	3,983,556.80	3,700,447.93	3,983,556.80

(2) Government grants

Item	Balance for this period	Balance for the same period last year	Asset related/ revenue related	Description
Special funds for adjustment and improvement project for traditional industry bases including the Northeast Area	1,594,999.96	1,495,000.00	Asset related	Note 1
Subsidy funds for the precious casting and processing of automotive components project	51,480.20	51,480.20	Asset related	Note 2
Special funds for establishment of a platform for public services provided in foreign trading	182,589.30	86,875.02	Asset related	Note 3
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	324,960.00	108,320.00	Asset related	Note 4
Heavy load hydraulic rack-and-pinion steering gear for high class market	38,506.68	12,835.56	Asset related	Note 5
Incentive funds for enterprises' investment in R&D	–	213,600.00	Revenue related	Note 6

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

8. Non-operating income (continued)

(2) Government grants (continued)

Item	Balance for this period	Balance for the same period last year	Asset related/ revenue related	Description
Incentives to modeling industrial enterprises	-	406,200.00	Revenue related	Note 7
Incentives to modeling technology innovation enterprises	-	323,500.00	Revenue related	Note 8
Incentive funds in respect of land use tax in cities and towns	815,000.00	271,100.00	Revenue related	Note 9
Subsidies for purchasing of equipment	6,205.56	111,700.00	Asset related	Note 10
Payment of subsidies of Provincial innovation policies	10,111.11	-	Asset related	Note 11
Subsidy on technology innovation project of reduction of abnormal sound of high performance reack-and-pinion steering gear	380,000.00	-	Revenue related	Note 12
Others	10,000.00	473,000.00	Revenue related	
Sub-total	3,413,852.81	3,553,610.78		

(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) (發改辦產產[2010]2684號) issued by National Development and Reform Commission (國家發展改革委員會).

(Note 2) "Description of Subsidy Funds for the Precious Casting and Processing of Automotive Components Project" (《關於汽車零部件精密鑄件及加工建設項目補貼資金的說明》) issued by Siping Tiedong Economic and Technology Development Zone Management Committee (四平鐵東經濟技術開發區管理委員會).

(Note 3) "Notice of Granting of Special Funds for Public Services Provided in Foreign Trading 2012" (《關於下達浙江省2012年度外貿公共服務平臺建設專項資金的通知》) (Hang Cai Qi (2013) No. 898)(杭財企(2013)898號) and "Notice of Granting of Special Funds for Public Services Provided in Foreign Trading 2013" (《關於下達浙江省2013年度外貿公共服務平臺建設專項資金的通知》) (Hang Cai Qi (2014) No. 648) (杭財企(2014)648號) issued by Hangzhou Bureau of Finance and Hangzhou Foreign Trade and Economic Cooperation Bureau (杭州市財政局、杭州市對外貿易經濟合作局發).

(Note 4) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou" (《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 Cai Qi (2013) No. 1550) (杭財企[2013]1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

8. Non-operating income (continued)

(2) Government grants (continued)

- (Note 5) “Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou” (《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 Cai Qi (2013) No.1550) (杭財企 [2013] 1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee.
- (Note 6) “Notice of the publication of Enterprises being Awarded Incentive Funds for their Investment in R&D 2012” (《關於公佈2012年度企業研發投入獎勵名單的通知》) (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 7) “Publicity of Award to Modelling Industrial Enterprises (entities) 2013” (《關於對2013年度先進工業企業(單位)予以表彰獎勵的通報》) (Hang Jing Kai Guan Fa (2014) No. 36) (杭經開管發 [2014] 36號) issued by Hangzhou Economic and Technological Development Area Administrative Committee.
- (Note 8) “Publicity of Award to Modelling Technology Innovation Enterprises (entities) 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 Guan Fa (2014) No. 35) (杭經開管發 [2014] 35號) issued by Hangzhou Economic and Technological Development Area Administrative Committee.
- (Note 9) “Notice of the Publication of ‘Measures for Implementation of Incentive Fund Scheme in respect of Land Use Tax in Cities and Towns within Wuhu Economic and Technology Development Zone’” (《關於印發〈蕪湖經濟技術開發區城鎮土地使用稅獎勵實施辦法〉的通知》) (Kai Ban (2013) no. 201) (開辦 [2013] 201號) issued by Wuhu Economic and Technology Development Zone Administrative Committee (蕪湖經濟技術開發區管委會).
- (Note 10) “Publicity of Acceptance of Industry Transform Projects and Investment of Individual Equipment Subsidies Projects” (《關於承接產業轉移項目和單台設備投資補助項目的公示》) issued by Wuhu Municipal economy and information technology department on 24 October 2013.
- (Note 11) “Notice of Granting of Special Fund Program (Incentives and Subsidies) on Building Innovative Province of Anhui Province 2014” (《關於下達2014年安徽省创新型省份建設專項資金計劃(獎補類)的通知》) (Ke Ji (2014) No.58) (科計 [2014] 58號) issued by Anhui Province Department of Science and Technology.
- (Note 12) “Notice of Granting of Subsidies for Substitution Machine and Others Projects by Industry and Technology Fund Pool 2014” (《關於下達2013年度開發區各類人才資助的通知》) (Hang Cai Qi (2014) No.1024) (杭財企 [2014] 1024號) issued by Hangzhou Economic and Technological Development Area Administrative Committee, Hangzhou Economic and Technological Development Area Finance Bureau.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

9. Non-operating expenses

Item	Balance for this period	Balance for the same period last year	Amount recognized as non-recurring gain and loss during the period
Total losses from disposal of non-current assets	1,208,726.88	6,531.70	1,208,726.88
Including: losses from disposal of fixed assets	1,208,726.88	6,531.70	1,208,726.88
Local water conservance construction funds	344,989.31	281,006.32	–
Others	9,004.53	77,276.71	9,004.53
Total	1,562,720.72	364,814.73	1,217,731.41

10. Income tax expenses

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Current income tax	7,367,317.45	5,280,385.23
Deferred income tax	-503,414.03	416,230.52
Total	6,863,903.42	5,696,615.75

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries had no assessable profits arising in Hong Kong during the reporting period under review (corresponding period of 2014: Nil).

(2) Adjusting process for accounting profits and income tax expenses

Item	Number during the period
Total profit	41,137,008.92
Income tax expenses calculated at legal/applicable tax rate	10,284,252.23
Effects of different applicable tax rates on subsidiaries	-3,789,623.43
Effects of adjusting income tax of prior periods	51,832.37
Effects on non-taxable income	-411,620.04
Effects on non-deductible costs, expenses and losses	50,137.00
Effects of deductible temporary differences or deductible loss of deferred income tax assets unrecognized during the period	1,715,335.36
Effects of including and excluding R&D expenses	-1,036,410.07
Income tax expenses	6,863,903.42

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(3) Notes to the Consolidated Statement of Cash Flows

1. Cash received in relation to operating activities

Item	Balance for the current period	Balance for the corresponding period last year
Recovery of deposits including banker's acceptances	17,556,059.52	8,340,703.35
Receipt of government grants which are revenue related	390,000.00	1,416,300.00
Interest income	1,685,209.47	302,143.56
Others	637,544.08	2,848,265.17
Total	20,268,813.07	12,907,412.08

2. Cash paid in relation to operating activities

Item	Balance for the current period	Balance for the corresponding period last year
Cash paid as selling expenses	16,968,461.68	19,105,764.67
Cash paid as general and administrative expenses	12,596,627.34	10,404,627.42
Payment of deposits including banker's acceptances	6,147,696.24	19,564,788.95
Others	674,342.15	338,795.58
Total	36,387,127.41	49,413,976.62

3. Cash received in relation to investing activities

Item	Balance for the current period	Balance for the corresponding period last year
Receipt of government grants which are asset related	-	5,563,700.00
Total	-	5,563,700.00

4. Cash paid in relation to financing activities

Item	Balance for the current period	Balance for the corresponding period last year
Non-public issuance fees	280,000.00	373,592.23
Total	280,000.00	373,592.23

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

5. Supplemental information on the statement of cash flows

(1) Supplemental information on the statement of cash flows

Supplemental information	Balance for the current period	Balance for the corresponding period last year
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	34,273,105.50	23,458,093.99
Add: Provision for impairment to assets	418,291.47	964,739.86
Depreciation of fixed assets, oil and gas assets and production	26,840,570.27	24,686,217.41
Amortization of intangible assets	4,825,948.65	4,892,607.46
Losses on disposal of fixed assets, intangible assets and other long-term assets (- as gains)	1,092,216.53	-43,304.45
Finance expenses (- as gains)	5,953,366.10	7,878,683.74
Investment losses (- as gains)	-6,600,246.57	-
Decrease in deferred income tax assets (- as increase)	-66,201.15	880,164.24
Increase in deferred income tax liabilities (- as decrease)	-437,212.88	-463,933.72
Decrease in inventories (- as increase)	-6,676,601.80	-5,331,694.70
Decrease in operational receivables (- as increase)	17,448,551.99	-40,491,073.61
Increase in operational payables (- as decrease)	-50,864,184.03	32,750,946.99
Net cash flows from operating activities	26,207,604.08	49,181,447.21
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	465,970,848.35	89,163,859.90
Less: Cash at the beginning of the period	742,857,761.48	58,609,424.36
Net increase in cash and cash equivalents	-276,886,913.13	30,554,435.54

(2) Cash and cash equivalents

Item	Balance at the end of the period	Balance at the beginning of the period
1) Cash	465,970,848.35	742,857,761.48
Including: Cash on hand	148,263.13	89,871.21
Bank deposit readily available	465,822,585.22	742,767,890.27
2) Closing balance of cash and cash equivalents	465,970,848.35	742,857,761.48

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others

1. Assets with restrictions in ownership or use rights

Item	Carrying amount at the end of the period	Reason for restriction
Monetary funds	6,147,781.89	Security deposits
Bills receivable	25,256,991.35	Pledge
Total	<u>31,404,773.24</u>	

2. Monetary items in foreign currencies

Item	Foreign currency balance at the end of the period	Exchange rate	Balance translated into RMB at the end of the period
Monetary funds			1,360,403.15
Including: US Dollar	7,244.81	6.1136	44,291.88
Euro	189,083.79	6.8699	1,298,986.73
HKD	21,243.99	0.7886	16,753.22
Swiss Franc	55.41	6.69861	371.17
Japanese Yen	3.00	0.0501	0.15
Trade receivables			9,659.49
Including: US Dollar	1,580.00	6.1136	9,659.49

3. Net current assets

	Balance at the end of the period	Balance at the beginning of the period
Current assets	1,329,682,851.67	1,426,121,718.48
Less: Current liabilities	(532,386,956.53)	(620,885,331.84)
	<u>797,295,895.14</u>	<u>805,236,386.64</u>

4. Total assets less current liabilities

	Balance at the end of the period	Balance at the beginning of the period
Total assets	2,012,610,767.20	2,101,067,888.20
Less: Current liabilities	(532,386,956.53)	(620,885,331.84)
	<u>1,480,223,810.67</u>	<u>1,480,182,556.36</u>

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

5. Earnings per share

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

During the period, the Company had no potential dilutive ordinary shares.

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

	Balance for the current period	Balance for the corresponding period last year
Earnings		
Net profit for the period attributable to the holders of the Company's ordinary shares	<u><u>36,109,760.10</u></u>	<u><u>27,781,320.27</u></u>
Shares		
Weighted average of ordinary shares issued by the Company	<u><u>315,857,855.00</u></u>	<u><u>277,657,855.00</u></u>
Basic earnings per share (RMB)	<u><u>0.1143</u></u>	<u><u>0.1001</u></u>
Diluted earnings per share (RMB)	<u><u>0.1143</u></u>	<u><u>0.1001</u></u>

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

6. Segment reporting

Operating segment

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

Other information

Geographical information

External revenue of the Group was mainly generated from Mainland China.

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

6. OWNER'S EQUITY IN OTHER ENTITIES

(1) Owner's equity in subsidiaries

1. Particulars of subsidiaries

Name of subsidiary	Principal place of business	Place of registration	Nature of business	Percentage of shareholding (%)		Method of ownership
				Direct	Indirect	
Hangzhou Shibao Auto Steering Gear Co., Ltd.	Zhejiang Hangzhou/PRC	Zhejiang Hangzhou/PRC	Manufacturing	100.00		Establishment
Hangzhou New Shibao Electric Power Steering Co., Ltd.	Zhejiang Hangzhou/PRC	Zhejiang Hangzhou/PRC	Manufacturing	70.00		Establishment
Jilin Shibao Machinery Manufacturing Co., Ltd.	Jilin Siping/PRC	Jilin Siping/PRC	Manufacturing	100.00		Establishment
Siping Steering Gear Co., Ltd.	Jilin Siping/PRC	Jilin Siping/PRC	Manufacturing	100.00		Establishment
Beijing Autonics Technology Co., Ltd.	Beijing/PRC	Beijing/PRC	Manufacturing	70.00		Business combination not under common control
Wuhu Sterling Steering System Co., Ltd.	Anhui Wuhu/PRC	Anhui Wuhu/PRC	Manufacturing	57.89		Business combination not under common control
Erdos Sterling Steering System Co., Ltd.	Inner Mongolia/PRC	Inner Mongolia/PRC	Manufacturing		57.89	Business combination not under common control

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

6. OWNER'S EQUITY IN OTHER ENTITIES (continued)

(1) Owner's equity in subsidiaries (continued)

2. Significant non-wholly owned subsidiaries

Name of subsidiary	Percentage of shareholding of minority shareholders	Profit/loss contributed to minority shareholders of the current period	Declared dividends distribution to minority shareholders of the current period	Balance of minority shareholders' equity at the end of the period
Hangzhou New Shibao Electric Power Steering Co., Ltd.	30.00%	-1,768,865.03	-	1,236,600.27
Beijing Autonics Technology Co., Ltd.	30.00%	45,487.98	-	1,625,364.05
Wuhu Sterling Steering System Co., Ltd.	42.11%	-113,277.55	-	16,784,392.67

3. Major financial information of significant non-wholly owned subsidiaries

(1) Assets and liabilities

Name of subsidiary	Current assets	Non-current assets	As at the end of the period			Total liabilities
			Total assets	Current liabilities	Non current liabilities	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	79,462,148.74	59,856,249.98	139,318,398.72	133,234,299.61	1,962,098.20	135,196,397.81
Beijing Autonics Technology Co., Ltd.	29,863,921.20	39,676,521.20	69,540,442.40	63,097,228.88	1,025,333.35	64,122,562.23
Wuhu Sterling Steering System Co., Ltd.	82,586,327.74	62,105,574.80	144,691,902.54	100,091,134.33	4,742,319.70	104,833,454.03

Name of subsidiary	Current assets	Non-current assets	As at the beginning of the period			Total liabilities
			Total assets	Current liabilities	Non current liabilities	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	85,951,128.16	61,969,391.88	147,920,520.04	135,757,614.87	2,144,687.50	137,902,302.37
Beijing Autonics Technology Co., Ltd.	25,483,031.73	40,317,148.42	65,800,180.15	59,412,468.22	1,121,458.35	60,533,926.57
Wuhu Sterling Steering System Co., Ltd.	90,596,447.20	63,195,540.89	153,791,988.09	108,564,811.42	5,099,724.25	113,664,535.67

(2) Profit/loss and cash flows

Name of subsidiary	Balance for the current period				Balance for the corresponding period last year			
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Hangzhou New Shibao Electric Power Steering Co., Ltd.	39,154,996.50	-5,896,216.76	-5,896,216.76	3,792,314.57	15,437,437.54	-9,306,716.49	-9,306,716.49	-3,195,374.63
Beijing Autonics Technology Co., Ltd.	18,070,911.70	151,626.59	151,626.59	300,035.00	6,452,491.55	-734,926.53	-734,926.53	1,988,965.23
Wuhu Sterling Steering System Co., Ltd.	49,508,237.23	-269,003.91	-269,003.91	18,117,457.60	37,275,996.90	-3,911,768.84	-3,911,768.84	-7,716,474.87

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(1) Details of financial instruments

Item	Balance at the end of the period	Balance at the beginning of the period
Financial assets	894,945,224.44	1,205,213,203.09
Including: Cash on hand and at bank	472,118,630.24	760,413,906.65
Notes receivable	117,543,694.19	110,001,880.87
Accounts receivable	299,249,171.89	328,448,994.53
Other receivables	6,033,728.12	6,348,421.04
Financial liabilities	476,474,063.91	599,371,984.38
Including: Bank borrowings	209,700,000.00	278,960,000.00
Notes payable	34,965,087.14	65,791,655.53
Accounts payable	218,609,739.72	237,195,243.19
Employee benefits payable	10,127,003.02	13,657,975.74
Interests payable	1,603,885.39	1,538,256.74
Other payables	1,468,348.64	2,228,853.18

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

During the daily operation, the main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. Management reviews and agrees policies for managing each of these risks and they are summarized below.

(2) Credit risk

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

Credit risk of the Company mainly relates to receivables. The Company trades only with recognized and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, accounts receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is not significant.

Since the Company trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As at 30 June 2015, the Group had specific concentration of credit risk as 40.49% (31 December 2014: 51.07%) of the Company's accounts receivable were due from the five largest customers. The Group does not hold any collateral or other credit enhancements over the balance of receivables.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(2) Credit risk (continued)

The amounts of financial assets that are not past due or impaired, and the ageing analysis of the financial assets that are past due but are not impaired are as follows:

Item	Neither past due nor impaired	Balance at the end of the period			Total
		Past due but not impaired			
		Within 1 year	1-2 years	Over 2 years	
Cash on hand and at bank	472,118,630.24	-	-	-	472,118,630.24
Notes receivable	117,543,694.19	-	-	-	117,543,694.19
Accounts receivable	245,454,484.43	51,477,363.78	2,317,323.68	-	299,249,171.89
Other receivables	6,033,728.12	-	-	-	6,033,728.12
Total	841,150,536.98	51,477,363.78	2,317,323.68	-	894,945,224.44

Item	Neither past due nor impaired	Balance at the beginning of the period			Total
		Past due but not impaired			
		Within 1 year	1-2 years	Over 2 years	
Cash on hand and at bank	760,413,906.65	-	-	-	760,413,906.65
Notes receivable	110,001,880.87	-	-	-	110,001,880.87
Accounts receivable	252,832,843.52	74,523,587.39	1,092,563.62	-	328,448,994.53
Other receivables	6,348,421.04	-	-	-	6,348,421.04
Total	1,129,597,052.08	74,523,587.39	1,092,563.62	-	1,205,213,203.09

(3) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk may arise when an entity is not able to sell financial assets at fair value in a timely manner; or the counterparties encounter difficulty in repaying contractual liabilities; or the entity could be required to pay its liabilities earlier than expected; or the entity could not obtain sufficient cash flow as expected.

For the purpose of controlling the risk, the Company sets its objective as maintaining a balance between continuity of funding and flexibility through the use of several financing methods such as notes settlement and bank borrowings, as well as optimizing financing structure through the combination of long and short-term financing. The Company has obtained banking facilities from several commercial banks to fund the working capital requirements and capital expenditure.

Management of the Company monitors the liquidity position of the Company on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fall due and to make the most efficient use of the Company's financial resources.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

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

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Cash on hand and at bank	472,118,630.24	472,118,630.24	472,118,630.24	-	-
Notes receivable	117,543,694.19	117,543,694.19	117,543,694.19	-	-
Accounts receivable	299,249,171.89	299,249,171.89	299,249,171.89	-	-
Other receivables	6,033,728.12	6,033,728.12	6,033,728.12	-	-
Total	894,945,224.44	894,945,224.44	894,945,224.44	-	-

Item	Carrying value	Balance at the beginning of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Cash on hand and at bank	760,413,906.65	760,413,906.65	760,413,906.65	-	-
Notes receivable	110,001,880.87	110,001,880.87	110,001,880.87	-	-
Accounts receivable	328,448,994.53	328,448,994.53	328,448,994.53	-	-
Other receivables	6,348,421.04	6,348,421.04	6,348,421.04	-	-
Total	1,205,213,203.09	1,205,213,203.09	1,205,213,203.09	-	-

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

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank borrowings	209,700,000.00	217,217,648.77	214,861,648.77	627,000.00	1,729,000.00
Notes payable	34,965,087.14	34,965,087.14	34,965,087.14	-	-
Accounts payable	218,609,739.72	218,609,739.72	218,609,739.72	-	-
Employee benefits payable	10,127,003.02	10,127,003.02	10,127,003.02	-	-
Interest payable	1,603,885.39	1,603,885.39	1,603,885.39	-	-
Other payables	1,468,348.64	1,468,348.64	1,468,348.64	-	-
Total	476,474,063.91	483,991,712.68	481,635,712.68	627,000.00	1,729,000.00

Item	Carrying value	Balance at the beginning of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank borrowings	278,960,000.00	288,559,094.11	286,203,094.11	627,000.00	1,729,000.00
Notes payable	65,791,655.53	65,791,655.53	65,791,655.53	-	-
Accounts payable	237,195,243.19	237,195,243.19	237,195,243.19	-	-
Employee benefits payable	13,657,975.74	13,657,975.74	13,657,975.74	-	-
Interest payable	1,538,256.74	1,538,256.74	1,538,256.74	-	-
Other payables	2,228,853.18	2,228,853.18	2,228,853.18	-	-
Total	599,371,984.38	608,971,078.49	606,615,078.49	627,000.00	1,729,000.00

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(4) Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk mainly includes interest rate risk and foreign exchange risk.

1. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk for changes in interest rates relates primarily to the long-term interest-bearing borrowings with floating interest rates.

2. Foreign exchange risk

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

(5) Capital risk management

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

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. As at 30 June 2015, the Company's gearing ratio was -21.56 (2014: -47.42%). The calculation is described as follow:

Item	Balance at the end of the period	Balance at the beginning of the period
Total borrowings	209,700,000.00	278,960,000.00
Less: Cash and cash equivalents	465,970,848.35	742,857,761.48
Net debt	-256,270,848.35	-463,897,761.48
Equity	1,444,798,397.73	1,442,111,077.73
Total capital	1,188,527,549.38	978,213,316.25
Gearing ratio	-21.56%	-47.42%

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Related parties

1. Parent company

Name of parent company	Place of registration	Nature of business	Reregistered capital (RMB0,000)	Shareholding % in the Company	Voting % in the Company
Shibao Holding	Zhejiang Yiwu	Industrial investment	5,000.00	52.36	52.36

The ultimate shareholder of the Company is Mr. Zhang Shi Quan and his family members Mr. Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Mr. Zhang Shi Zhong.

2. Details of the Company's subsidiaries are listed in owner's equity in other entities of the notes to the financial statement.

(2) Related parties transactions

1. Guarantee with related parties

The Company and its subsidiaries as the secured parties

Guarantor	Guaranteed amount (RMB0,000)	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fully fulfilled
Zhang Shi Quan	2,000.00	2014.10.21	2015.10.12	No
Zhang Shi Quan	1,000.00	2014.10.27	2015.09.15	No
Zhang Shi Quan	1,400.00	2014.11.28	2015.11.24	No
Zhang Shi Quan	5,000.00	2015.06.23	2016.06.23	No
Shibao Holding, Zhang Shi Quan, Zhang Shi Zhong	2,000.00	2015.04.13	2016.04.08	No
Shibao Holding, Zhang Shi Quan, Zhang Shi Zhong	4,000.00	2015.04.20	2016.04.08	No
Shibao Holding	2,000.00	2014.12.04	2015.12.04	No
Shibao Holding	2,500.00	2015.05.12	2016.02.04	No
Shibao Holding	5,398.40	2015.04.02	2015.10.02	No

2. Remuneration/fee of key management

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	1,486,589.87	1,074,308.60
Other key management	261,989.98	189,240.00
Total	1,748,579.85	1,263,548.60

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(3) Receivable and payable with related parties

Item	Related party	Balance at the end of the period	Balance at the beginning of the period
Notes payable	Zhejiang Shibao	6,113,000.00	17,109,600.00
	Hangzhou Shibao	9,784,221.55	5,324,022.04
	Hangzhou New Shibao	–	790,000.00
	Jilin Shibao	–	2,500,000.00
Accounts payable	Hangzhou Shibao	–	27,500,000.00
Total		<u>15,897,221.55</u>	<u>53,223,622.04</u>

9. COMMITMENTS

(1) Lease arrangement

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

Item	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	511,049.66	702,999.54
1-2 years	–	170,349.89
Total	<u>511,049.66</u>	<u>873,349.43</u>

(2) Major commitments

Item	Balance at the end of the period	Balance at the beginning of the period
Material contracts in relation to acquisition of assets contracted but not recognized	<u>47,870,638.02</u>	<u>20,881,027.21</u>

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

10. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

(1) Note to the balance sheet of the parent company

1. Accounts receivable

(1) Breakdown

1) Breakdown by types

Types	Balance at the end of the period		Provision for bad debts		Book value
	Carrying amount Amount	%	Amount	%	
Individually significant amount with bad debt provision on individual basis	66,327,369.54	99.56	-	-	66,327,369.54
Individually insignificant but significant based on credit risk characteristics	292,979.00	0.44	292,979.00	100.00	-
Total	66,620,348.54	100.00	292,979.00	0.44	66,327,369.54

Types	Balance at the beginning of the period		Provision for bad debts		Book value
	Carrying amount Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	49,337,894.17	99.41	-	-	49,337,894.17
Individually insignificant but significant based on credit risk characteristics	292,979.00	0.59	292,979.00	100.00	-
Total	49,630,873.17	100.00	292,979.00	0.59	49,337,894.17

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

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount Amount	Proportion (%)	Provision for bad debts	Carrying amount Amount	Proportion (%)	Provision for bad debts
Within 1 year	39,640,922.99	59.50	-	29,964,468.47	60.37	-
1-2 years	24,107,036.99	36.19	-	19,373,425.70	39.04	-
2-3 years	2,579,409.56	3.87	-	-	-	-
Over 3 years	292,979.00	0.44	292,979.00	292,979.00	0.59	292,979.00
Sub-total	66,620,348.54	100.00	292,979.00	49,630,873.17	100.00	292,979.00

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

10. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(1) Note to the balance sheet of the parent company (continued)

1. Accounts receivable (continued)

(1) Breakdown (continued)

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Receivables of sales payment from Wuhu Sterling	66,327,369.54	–	–	Individual impairment test showed no risk was expected of balance recover
Sub-total	66,327,369.54	–	–	

4) Provision for bad debt by groups

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

(2) There are no bad debts provision made, recovered or reversed during the period.

(3) There are no receivables from products actually sold during the period.

(4) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
Wuhu Sterling	66,327,369.54	99.56	–
Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd. (贛州江環汽車製造有限公司)	125,000.00	0.19	125,000.00
Hubei San Huan Special Vehicle Co., Ltd. (湖北三環專用汽車有限公司)	43,400.00	0.07	43,400.00
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)	36,000.00	0.05	36,000.00
Luoyang Biao Ma Vehicle Co., Ltd. (洛陽彪馬車輛有限公司)	32,770.00	0.05	32,770.00
Sub-total	66,564,539.54	99.92	237,170.00

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

10. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(1) Note to the balance sheet of the parent company (continued)

2. Other receivables

(1) Breakdown

1) Breakdown by types

Types	Carrying amount		Balance at the end of the period		Book value
	Amount	%	Amount	%	
Individually significant amount with bad debt provision on individual basis	291,909,790.23	99.86	-	-	291,909,790.23
Individually insignificant but significant based on credit risk characteristics	54,904.42	0.02	-	-	54,904.42
Individually insignificant amount with bad debt provision on individual basis	353,350.53	0.12	-	-	353,350.53
Total	292,318,045.18	100.00	-	-	292,318,045.18

Types	Carrying amount		Balance at the beginning of the period		Book value
	Amount	%	Amount	%	
Individually significant amount with bad debt provision on individual basis	270,921,411.29	99.79	-	-	270,921,411.29
Individually insignificant but significant based on credit risk characteristics	64,504.42	0.02	-	-	64,504.42
Individually insignificant amount with bad debt provision on individual basis	502,456.85	0.19	-	-	502,456.85
Total	271,488,372.56	100.00	-	-	271,488,372.56

2) The aging analysis of other receivables is as follows:

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for bad debts	Amount	Carrying amount	Provision for bad debts	Amount
Amount	Proportion (%)			Amount		
Within 1 year	145,381,274.80	-	49.73	59,477,384.23	-	21.91
1-2 years	43,301,044.04	-	14.81	53,966,483.91	-	19.88
2-3 years	67,986,863.39	-	23.26	88,049,057.20	-	32.43
Over 3 years	35,648,862.95	-	12.20	69,995,447.22	-	25.78
Sub-total	292,318,045.18	-	100.00	271,488,372.56	-	100.00

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

10. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(1) Note to the balance sheet of the parent company (continued)

2. Other receivables (continued)

(1) Breakdown (continued)

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Receivables of sales payment from Jilin Shibao and others	291,909,790.23	–	–	Individual impairment test showed no risk was expected of balance recover
Sub-total	<u>291,909,790.23</u>	<u>–</u>	<u>–</u>	

4) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	54,904.42	–	–
Sub-total	<u>54,904.42</u>	<u>–</u>	<u>–</u>

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Other receivables of individual imprest and others	353,350.53	–	–	Individual impairment test showed no risk was expected of balance recover
Sub-total	<u>353,350.53</u>	<u>–</u>	<u>–</u>	

(2) There are no bad debts provision made, recovered or reversed during the period.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

10. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(1) Note to the balance sheet of the parent company (continued)

2. Other receivables (continued)

(3) Classification by nature of other receivables

Nature of the receivables	Balance at the end of the period	Balance at the beginning of the period
Current accounts	291,909,790.23	270,921,411.29
Securities deposits	187,059.00	197,059.00
Imprest	65,800.00	89,114.61
Others	155,395.95	280,787.66
Sub-total	292,318,045.18	271,488,372.56

(4) The five largest other receivables

Name	Nature of receivables	Carrying amount	Age	Percentage to the balance of other receivables (%)	Provision for bad debts
Jilin Shibao	Current accounts	109,290,000.00	Within 1 year, 1-2 years, 2-3 years, Over 3 years	37.39	-
Hangzhou New Shibao	Current accounts	74,956,135.08	Within 1 year, 1-2 years, 2-3 years, Over 3 years	25.64	-
Beijing Autonics	Current accounts	59,900,000.00	Within 1 year, 1-2 years, 2-3 years, Over 3 years	20.49	-
Siping Steering	Current accounts	27,531,417.18	Within 1 year, 1-2 years	9.42	-
Hangzhou Shibao	Current accounts	20,232,237.97	Within 1 year	6.92	-
Sub-total		291,909,790.23		99.86	-

3. Long-term equity investments

(1) Breakdown

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Investments in subsidiaries	182,159,214.87	-	182,159,214.87	182,159,214.87	-	182,159,214.87
Total	182,159,214.87	-	182,159,214.87	182,159,214.87	-	182,159,214.87

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

10. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

(1) Note to the balance sheet of the parent company (continued)

3. Long-term equity investments (continued)

(2) Investment in subsidiaries

Investees	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Provision for impairment during the period	Provision for impairment at the end of the period
Hangzhou Shibao	70,461,807.49	–	–	70,461,807.49	–	–
Hangzhou New Shibao	42,000,000.00	–	–	42,000,000.00	–	–
Siping Steering	13,250,000.00	–	–	13,250,000.00	–	–
Jilin Shibao	30,000,000.00	–	–	30,000,000.00	–	–
Beijing Autonics	7,000,000.00	–	–	7,000,000.00	–	–
Wuhu Sterling	19,447,407.38	–	–	19,447,407.38	–	–
Sub-total	182,159,214.87	–	–	182,159,214.87	–	–

(2) Notes to the Income Statement of the Parent Company

1. Revenue/cost of sales

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Revenue from main business	22,214,987.04	15,044,502.24	18,112,397.69	13,167,831.89
Revenue from other business	64,477.03	54,586.43	71,701.62	57,709.51
Total	22,279,464.07	15,099,088.67	18,184,099.31	13,225,541.40

2. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from long-term equity investments under cost method of accounting	30,000,000.00	25,000,000.00
Gains from bank wealth management products	4,981,917.80	–
Total	34,981,917.80	25,000,000.00

NOTES TO THE FINANCIAL STATEMENTS

30 June 2015 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

11. OTHER IMPORTANT MATTERS

(1) Non-recurring gain and loss

Item	Amount
Gain or loss on disposal of non-current assets	-1,092,216.53
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	3,413,852.81
Gain or loss on entrusted investment or asset management	6,600,246.57
Other non-operating income and expenses apart from those stated above	444,189.11
Less: Effect on enterprise income tax (reduction in income tax)	1,432,633.14
Effect on interest of minority shareholders (after tax)	316,914.12
Total	<u>7,616,524.70</u>

(2) Return on net assets and earnings per share

Profit for the reporting period	Weighted average return on net assets ratio (%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profits attributable to the ordinary shareholders of the Company	2.51	0.1143	0.1143
Net profits after deducting non-recurring profit/loss attributable to the ordinary shareholders of the Company	1.98	0.0902	0.0902

12. OTHERS

The financial statements have been approved for publication at the 3rd meeting of the fifth Board of Directors on 21 August 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF CHINA AUTOMOBILE INDUSTRY

From January to June 2015, production and sales volume of China automobile industry was 12,095,000 units and 11,850,300 units respectively, representing an increase of 2.60% and 1.40% as compared with the corresponding period last year. Among these, production and sales of passenger cars were 10,327,800 units and 10,095,600 units respectively, representing an increase of 6.40% and 4.80% as compared with the corresponding period last year; production and sales of commercial vehicles were 1,767,200 units and 1,754,700 units respectively, representing a decrease of 14.90% and 14.40% as compared with the corresponding period last year. Sales of China-brand passenger cars decreased by 0.10%, shares of China-brand passenger cars in total sales of passenger cars increased by 1.20%. Among commercial vehicles, production and sales volume of buses increased by 3.80% and 0.90% respectively as compared with the corresponding period last year; production and sales volume of trucks decreased by 17.70% and 16.80% respectively as compared with the corresponding period last year. The top ten automaker groups in China sold 10,639,100 units of automobiles, representing an increase of 1.50% as compared with the corresponding period last year. Their sales represented 89.80% of the total sales of the automobile industry, an increase of 0.10% as compared with the corresponding period last year.

ANALYSIS OF MAIN BUSINESS

During the reporting period, the Company recorded a revenue of RMB442,723,463.64, representing an increase of 12.17% as compared with the corresponding period last year. The increase of revenue was mainly due to the further diversify of the Company's customer portfolio, as well as new projects started of production resulted in an increase of sales of the Company's passenger car steering products, including the sales of EPS.

During the reporting period, the gross profit of the Company's main business increased by RMB6,883,284.89 as compared with the corresponding period last year. The gross profit margin of the Company's main business was 25.98% (corresponding period of 2014: 27.30%). The decrease in the gross profit margin was mainly due to an adverse impact of sales drop of commercial vehicle market in China.

During the reporting period, the Company's selling expenses was RMB24,904,879.91, representing a slight decrease of 1.41% as compared with the corresponding period last year. Decrease in selling expenses was mainly due to a decrease in warranty expenses. During the reporting period, the Company's general and administrative expenses were RMB51,520,842.49, representing an increase of 12.67% as compared with the corresponding period last year. Increase in general and administrative expenses was mainly due to an increase in the research and development expenses and professional services expenses. During the reporting period, the Company's financial expenses were RMB4,933,494.25, representing a decrease of 36.69% as compared with the corresponding period last year. Decrease in financial expenses was mainly due to adding up of a decrease in bank borrowings resulted in decrease of interests expenses, and an increase of interests gain from bank deposits of the proceeds.

During the reporting period, the Company's research and development expenses was RMB16,481,121.68, representing an increase of 16.71% as compared with the corresponding period last year. The Company's research and development expenses was used in the research and development and testing of automotive steering related new technologies and new manufacturing processes. 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.

In view of the above, the Company recorded a net profit attributable to shareholders of the listed issuer of RMB36,109,760.10 during the reporting period, representing an increase of 29.98% as compared with the corresponding period last year.

During the reporting period, the Company's net cash inflow from operating activities was RMB26,207,604.08, decreased by 46.71% as compared with the corresponding period last year, which was mainly due to the maturity and payment of notes payable for purchasing goods, as well as an increase in number of employees resulted in an increase in payment of wages; net cash outflow from investing activities was RMB227,666,779.76, increased by 483.18% as compared with the corresponding period last year, which was mainly due to the subscriptions of bank wealth management products using part of the idle proceeds; net cash outflow from financing activities was RMB75,077,107.57, decreased by 461.44% as compared with the corresponding period last year, which was mainly due to repayment of bank loans.

MANAGEMENT DISCUSSION AND ANALYSIS

In view of the above, the Company recorded a net decrease of cash and cash equivalents of RMB276,886,913.13 during the reporting period, decreased by 1,006.21% as compared with the corresponding period last year.

Breakdown of main business during the reporting period:

	Revenue	Operating costs	Gross margin	As compared to the corresponding period last year		
				Change of revenue	Change of operating costs	Change of gross margin
By sectors						
Automotive components and spare parts manufacturing	440,326,133.52	325,950,419.81	25.98%	11.83%	13.87%	-1.32%
By products						
Steering system and parts	413,214,088.18	305,594,897.01	26.04%	12.14%	15.43%	-2.11%
Spare parts and others	27,112,045.34	20,355,522.80	24.92%	7.34%	-5.37%	10.08%

COMPETITIVE STRENGTHS OF THE COMPANY

Zhejiang Shibao is committed itself to the research and development of technologies and products in relation to automotive steering system and has accumulated extensive experiences in OEM supply in automobile industry. It is the Tier-I supplier of numbers of large automakers in China and globally. The core competitive strengths of the Company are realized in the following four aspects:

- 1) **Leading R&D and engineering capacity:** the Company is the owner of 80 patents issued by the State Intellectual Property Office of the P.R.C., among which 6 patents are the patents of invention. All of these patents are associated with steering technologies for passenger car, commercial vehicles, hydraulic steering and electric steering etc.. The Company also is the owner of 3 software copyrights associated with EPS electronic control unit. Furthermore, in order to prepare for the new opportunities and challenges arised from the technology innovation in the automobile industry, the Company has pioneered the R&D associated with intelligent driving technologies.
- 2) **State-of-the-art manufacturing processes:** all of the major plants of the Company adopt lean production management system and are certified by ISO:TS16949 quality certification system, with an aim to provide high-tech and high quality products to the clients with the most competitive price.
- 3) **Loyalty and professional team:** the Company has established a flexible staff recruitment and incentive scheme. It's key management and technical team are loyal and has extensive industry experiences.
- 4) **High corporate governance standard and strong financing capability:** the Company is a listed company with its shares trading on both stock exchanges of Mainland China and Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2015, the amount of total loans and borrowings was RMB209,700,000.00 (31 December 2014: RMB278,960,000.00). Total loans and borrowings decreased by RMB69,260,000.00 when compared with the beginning of the year. Among which, loans and borrowings of short-term and due within one year amounted to RMB207,800,000.00 (31 December 2014: RMB277,060,000.00), representing a share of 99.09% (31 December 2014: 99.32%) in total loans and borrowings. Loans and borrowings at fixed interest rates amounted to RMB200,900,000.00 (31 December 2014: RMB250,160,000.00).

The Company has issued 38.2 million RMB ordinary shares (A Shares) by way of private placement at issue price of RMB18.46 per share, which raised an aggregate proceeds of RMB705,172,000 and a net proceeds of RMB658,162,900. On 11 December 2014, the proceeds were credited into the fund regulatory account of the Company. The amount of the proceeds actually utilized by the Company from January to June 2015 was RMB81,219,400. As at 30 June 2015, the unutilized proceeds amounted to RMB584,725,000, of which RMB210,000,000 was bank's guaranteed wealth management products. Balance of the fund account was RMB374,725,000, which included the net amount of accumulated gains from the guaranteed wealth management products and interests from bank deposits less bank handling fees of RMB7,781,400.

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

ASSET-LIABILITY RATIO

As at the end of the reporting period, the Company's asset-liability ratio was 28.21% (31 December 2014: 31.36%), representing a decrease of 3.15%. The calculation of asset-liability 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.

PLEDGE OF ASSETS

As at 30 June 2015, the secured notes receivable and the monetary assets with restricted ownership rights and rights in use of the Group amounted to RMB25,256,991.35 and RMB6,147,781.89, respectively, representing the collateral security and earnest money for the issuance of the bank acceptance bills.

MATERIAL ACQUISITIONS AND DISPOSALS

During the period under review, the Group did not have any 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

As at 30 June 2015, apart from material commitments set out in Note 9 to the financial statements, the Group has no other material capital commitments.

CONTINGENT LIABILITIES

As at 30 June 2015, the Group had no material contingent liabilities.

EMPLOYEE AND REMUNERATION

The Group had a total of 1,769 employees as at 30 June 2015, and total staff salaries and welfares costs amounted to RMB61,619,662.49 during the reporting period. 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.

The 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 the Company and its subsidiaries with respect to the scheme is to make the required contributions. The contributions payable under the scheme were properly accrued by the Company during the reporting period.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2015 (30 June 2014: Nil).

OUTLOOK

Zhejiang Shibao's strategic objective is to be an intelligent driving solution provider to global automakers. Therefore, in the next few years, the Company is planning to develop the mechanical and electronic integration technology that make driving safer and intelligent jointly by independent R&D, and merger and acquisition.

During the reporting period, the Company continued developing middle and high-end market in China and overseas, and facilitated investment on projects using the proceeds. In order to establish capacity in intelligent driving, the Company established R&D center in Beijing focusing on intelligent driving, meanwhile, the Company was exploring opportunities overseas for partnership and acquisition.

Forecast on the operating results between January and September 2015

Change in net profit attributable to shareholders of the listed issuer between January and September 2015 (%)	20% To 40%
Range of change in net profit attributable to shareholders of the listed issuer between January and September 2015 (RMB ten thousands)	4,424.20 To 5,161.56
Net profit attributable to shareholders of the listed issuer between January and September 2014 (RMB ten thousands)	3,686.83

Illustrations on reasons attributable to the movements in results

Forecast profit increase of the Company will be mainly due to an increase of business scale, a decrease of financial expenses and an increase of gain on wealth management products.

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 2015 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. Shum Shing Kei (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 directors, general manager and other senior executives; and (iv) review the structure, size and composition of the Board at least annually and make recommendations on any proposed changes of the Board to complement the Company's corporate strategy.

The Nomination Committee consists of three members, namely Mr. Zhang Hong Zhi (Chairman of the Nomination Committee) and Mr. Shum Shing Kei (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. Shum Shing Kei (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 this interim report has been reviewed by the Audit Committee.

CHANGES IN DIRECTORS' AND SUPERVISORS' INFORMATION

The following information is set out pursuant to the requirements of Rule 13.51B(1) of the Listing Rules:

Reference is made to the announcement dated 30 June 2015 of the Company in relation to, among others, the poll results of 2014 Annual General Meeting, re-election and appointment of Directors and Supervisors for the forthcoming session, and re-designation of a Director. Eight retiring Directors (namely, Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Mr. Zhu Jie Rong, Ms. Zhang Lan Jun, Mr. Zhang Shi Zhong, Mr. Zhang Hong Zhi and Mr. Guo Kong Hui) were re-elected at the Annual General Meeting as Directors for a term of three years, which commenced from 30 June 2015 and will expire at the conclusion of the annual general meeting of the Company to be held in 2018. Four retiring Supervisors (namely, Mr. Yang Di Shan, Mr. Shen Song Sheng, Mr. Du Min and Mr. Wu Lang Ping) were re-elected as Supervisors for a term of three years, which commenced from 30 June 2015 and will expire at the conclusion of the annual general meeting of the Company to be held in 2018.

Following the retirement of Mr. Chau Kam Wing at the Annual General Meeting, he ceased to be the Chairman of the Nomination Committee. On 30 June 2015, the Board appointed Mr. Zhang Hong Zhi, an independent non-executive Director, as the Chairman of Nomination Committee with effect from 30 June 2015. Mr. Zhu Jie Rong re-designated from executive Director to non-executive Director and ceased to act as an authorized representative of the Company with effect from 30 June 2015. The Board appointed Ms. Zhang Lan Jun, an executive Director, as an authorized representative of the Company in place of Mr. Zhu Jie Rong with effect from 30 June 2015.

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 2015, 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	72.18%	52.36%
	Beneficial owner	10,556,632	4.61%	3.34%

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 72.18% of the A Shares in issue and 52.36% 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 2015, 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 of its associated corporation (within the meaning of Part XV of the 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 2015, 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 and short 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 (Long position)	72.18%	52.36%
Mr. Zhang	Interest in controlled corporation (Note 1 and 2)	165,387,223 A Shares (Long position)	72.18%	52.36%
	Beneficial owner (Note 2)	10,556,632 A Shares (Long position)	4.61%	3.34%
UBS AG	Beneficial owner	4,398,000 H Shares (Long position)	5.07%	1.39%
		692,000 H Shares (Short position)	0.80%	0.22%
UBS Group AG	Interest in controlled corporation	4,398,000 H Shares (Long position)	5.07%	1.39%
		692,000 H Shares (Short position)	0.80%	0.22%

Note:

- (1) As at 30 June 2015, 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 held by Shibao Holding and 10,556,632 A Shares 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 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 2015, Directors are not aware of any other person (other than the Directors, Supervisors and chief executive of the Company as disclosed above) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

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 2015, 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

During the period under review, 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.

GLOSSARY

“A Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued in China and listed on Shenzhen Stock Exchange, and are subscribed for and traded in RMB
“Accounting Standards for Business Enterprises or China Accounting Standards for Business Enterprises or CASBE”	Financial reporting standards and interpretations for business enterprises issued by the China Accounting Standards Committee of the China Ministry of Finance
“Anhui Changshan”	Anhui Changshan Auto Parts Manufacturing Co., Ltd., a subsidiary controlled by Shibao Holding
“Annual General Meeting”	The 2014 annual general meeting of the Company held on 30 June 2015
“Articles of Association”	Articles of association of the Company
“Audit Committee”	Audit committee of the Company
“Board”	Board of Directors of the Company
“Company or Zhejiang Shibao”	Zhejiang Shibao Company Limited
“Corporate Governance Code or CG Code”	Corporate Governance Code and Corporate Governance Report, Appendix 14 to the Listing Rules of Hong Kong Stock Exchange
“CSRC”	China Securities Regulatory Committee
“Director(s)”	Director(s) of the Company
“Group”	The Company and its subsidiaries

GLOSSARY

“H Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued overseas and listed on Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars
“Hangzhou New Shibao”	Hangzhou New Shibao Electric Power Steering Co., Ltd., a subsidiary controlled by the Company
“Hangzhou Shibao”	Hangzhou Shibao Auto Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Jilin Shibao”	Jilin Shibao Machinery Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company
“Listing Rules”	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules of Hong Kong Stock Exchange
“Mr. Zhang”	Mr. Zhang Shi Quan
“Nomination Committee”	Nomination committee of the Company
“PRC or China or Mainland China”	People’s Republic of China
“Remuneration Committee”	Remuneration committee of the Company
“RMB”	Renminbi
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shibao Holding or Zhejiang Shibao Holding or Ultimate Holding Company”	Zhejiang Shibao Holding Group Co., Ltd.
“Siping Steering”	Siping Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company since 11 June 2014
“Supervisor(s)”	Supervisor(s) of the Company
“Supervisory Committee”	Supervisory committee of the Company