



# 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

**ANNUAL REPORT 2015**

\* For identification purposes only



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**Important Notice:**

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

# CORPORATE INFORMATION

<b>Legal Name</b>	Zhejiang Shibao Company Limited* 浙江世寶股份有限公司
<b>Board of Directors</b>	<b>Executive Directors</b> 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> )  <b>Non-executive Directors</b> Mr. Zhang Shi Zhong (張世忠) Mr. Zhu Jie Rong (朱頡榕)  <b>Independent Non-executive Directors</b> Mr. Zhang Hong Zhi (張洪智) Mr. Guo Kong Hui (郭孔輝) Mr. Shum Shing Kei (沈成基)
<b>Supervisors</b>	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)
<b>Senior Management</b>	Mr. Yu Zhong Chao (虞忠潮) Ms. Liu Xiao Ping (劉曉平)
<b>Audit Committee</b>	Mr. Shum Shing Kei (沈成基) ( <i>Chairman</i> ) Mr. Zhang Shi Zhong (張世忠) Mr. Zhang Hong Zhi (張洪智)
<b>Remuneration Committee</b>	Mr. Shum Shing Kei (沈成基) ( <i>Chairman</i> ) Mr. Zhang Shi Zhong (張世忠) Mr. Zhang Hong Zhi (張洪智)
<b>Nomination Committee</b>	Mr. Zhang Hong Zhi (張洪智) ( <i>Chairman</i> ) Mr. Shum Shing Kei (沈成基) Ms. Zhang Lan Jun (張蘭君)
<b>Investment &amp; Strategy Committee</b>	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

<b>Secretary of The Board</b>	Ms. Liu Xiao Ping (劉曉平)
<b>Company Secretary</b>	Ms. Huen Lai Chun (禰麗珍)
<b>Authorised Representatives</b>	Ms. Zhang Lan Jun (張蘭君) Ms. Huen Lai Chun (禰麗珍)
<b>Registered Office</b>	No. 1, Shuanglin Road Fotang Town Yiwu Zhejiang Province China (Post code: 322002)
<b>Principal Place of Business in Hong Kong</b>	Room 1204 C C Wu Building 302-308 Hennessy Road Wanchai Hong Kong
<b>Legal Advisers</b>	<i>as to PRC law</i> King & Wood Mallesons Shanghai Office 17th Floor, One ICC 999 Middle Huaihai Road Xuhui District, Shanghai China
<b>Auditors</b>	Pan-China Certified Public Accountants LLP 4th-10th Floor Xinhu Commercial Tower No. 128 Xixi Road Hangzhou, China

# CORPORATE INFORMATION

## Principal Bankers

Agricultural Bank of China, Yiwu Branch

– Fotang Sub-branch

85 Jianshe Road, Fotang

Yiwu, Zhejiang Province, China

Industrial and Commercial Bank of China, Yiwu Branch

– Yiwu Sub-branch

128 Huangyuan Road

Yiwu, Zhejiang Province, China

China CITIC Bank

Hangzhou Economic and Technology Development Zone Branch

Building 2, Singapore Hangzhou Technology Zone

6th Avenue

Hangzhou Economic and Technology Development Zone

Hangzhou, Zhejiang Province, China

China Zheshang Bank

Hangzhou Yuquan Branch

52 Qiushi Road

Hangzhou, Zhejiang Province, China

Industrial and Commercial Bank of China, Siping Branch

– Zhongyang Dong Lu Sub-branch

1 Tiedong District

Siping, Jilin Province, China

Industrial and Commercial Bank of China, Hangzhou Branch

– Jingkai Sub-branch

No. 5, 6th Avenue

Hangzhou Economic and Technological Development Zone

Hangzhou, Zhejiang Province, China

China Construction Bank, Siping Branch

– Tiedong Sub-branch

No. 1155, Zhongyang Dong Lu, Tiedong District

Siping, Jilin Province, China

Industrial and Commercial Bank of China, Beijing Branch

– Zi Zhu Yuan Road Sub-branch

No. 10, Zhong Guan Cun South Road Jia

Hai Dian District

Beijing, China

# CORPORATE INFORMATION

## Hong Kong H Share Registrar and Transfer Office

## Contact Information

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

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

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

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

## Corporate communication/Investor relations

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

# CORPORATE INFORMATION

## **Company secretary services**

Ms. Huen Lai Chun (禰麗珍) *Company Secretary*

Room 1204

C C Wu Building

302-308 Hennessy Road

Wanchai

Hong Kong

Tel.: +852 3104 8118

Fax: +852 3104 8119

Email: [ir@zjshibao.com](mailto: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](http://www.zjshibao.com)



# CORPORATE PROFILE

Zhejiang Shibao is a joint stock limited company registered in the People's Republic of China. The Company's H Shares were listed on the Growth Enterprise Market of Hong Kong Stock Exchange on 16 May 2006 and were transfer listed on the Main Board of Hong Kong Stock Exchange on 9 March 2011, and its stock code is 1057. The Company's A Shares were listed on Shenzhen Stock Exchange on 2 November 2012, and its stock code is 002703.

Zhejiang Shibao lives up to its role of enhancing safety and comfortability for driving. The Company is committed to providing world leading automakers with safe, energy-saving, light-weighted automotive new-energy-powered steering system. The Company's strategic objective is to be an intelligent driving solution provider to world leading automakers.

The Company is one of the early movers in the development of hydraulic power steering gears and electric power steering (EPS) system in the PRC, striving to become a pioneer achiever of smart driving technology and system integration to maintain the Company's competitive advantages for sustainable development. The Company has accumulated over 30 years of experience in OEM supply in automobile industry with diverse customer resources worldwide, enabling the Company to become a Tier-1 OEM supplier among the automakers with good reputation, including FAW Group, Dongfeng Group, JAC, King Long Motor, BAIC Motor, Chery Auto, Geely Automobile, Saipa Automotive, Daimler Group, SGMW and Changan Mazda.



## FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the past five years ended 31 December 2015 are set out below. The relevant information were prepared on a consolidated basis and based on China Accounting Standards for Business Enterprises.

### RESULTS

	For the year ended 31 December				
	2015 RMB0,000	2014 RMB0,000	2013 RMB0,000	2012 RMB0,000	2011 RMB0,000
Revenue	<b>83,772</b>	81,124	67,460	54,838	62,592
Total profit	<b>5,987</b>	4,216	5,076	7,950	12,589
Net profit	<b>5,194</b>	3,648	4,553	6,889	11,065
Minority interests	<b>-160</b>	-690	-329	-323	-222
Net profits attributable to equity holders of the parent	<b>5,354</b>	4,337	4,882	7,213	11,287
Basic earnings per share (RMB)	<b>0.17</b>	0.16	0.18	0.27	0.43
Diluted earnings per share (RMB)	<b>0.17</b>	0.16	0.18	0.27	0.43

### ASSETS AND LIABILITIES

	As at 31 December				
	2015 RMB0,000	2014 RMB0,000	2013 RMB0,000	2012 RMB0,000	2011 RMB0,000
Non-current assets	<b>69,321</b>	67,495	62,945	54,257	52,709
Current assets	<b>119,259</b>	142,612	68,471	63,967	52,426
Current liabilities	<b>39,108</b>	62,089	50,070	40,329	33,145
Net current assets	<b>80,151</b>	80,524	18,401	23,638	19,281
Equity attributable to equity holders of the parent	<b>144,258</b>	142,063	74,355	71,694	64,137
Total liabilities and equity	<b>188,580</b>	210,107	131,416	118,224	105,135

# CHAIRMAN'S STATEMENT

I would like to present on behalf of the Board the report of the audited results of the Group for the year ended 31 December 2015.

Zhejiang Shibao lives up to its role of enhancing safety and comfortability for driving. The Company is committed to providing world leading automakers with safe, energy-saving, light-weighted automotive new-energy-powered steering system. The Company is mainly engaged in the develop, design, manufacture and sales of automotive steering gears and other key components and parts of steering system and is also the early domestic enterprise having built the capacity of independent mechanical-electrical integration technologies and volume production of electric power steering (EPS) system. The Company's strategic objective is to be an intelligent driving solution provider to world leading automakers.

During the reporting period, sales of the Company's passenger cars steering system kept growing, among which sales of electric power steering system increased largely. During the reporting period, the Company recorded a revenue of RMB837,719,325.84, representing an increase of 3.26% as compared with 2014. During the reporting period, the gross profit margin of the Company's main business was 25.73% (2014: 26.69%). The decrease in the gross profit margin was mainly due to a decrease of products sales price. During the reporting period, the Company recorded net profit attributable to shareholders of the listed company of RMB53,540,843.43, representing an increase of 23.44% as compared with 2014.

During the reporting period, the Company recorded a profit in line with its forecast. During the reporting period, the progress of two fund-raising investment projects, namely "The increase of production of power automotive steering gears project" (汽車液壓助力轉向器擴產項目) and "The research and development, examination and inspection and trial production centre of automotive steering gear system project" (汽車轉向系統研發、檢測及試製中心項目) executed by Hangzhou Shibao, a subsidiary of the Company, lagged behind the planned schedule, primarily attributed to a review across the board on Hangzhou Shibao conducted by the Daimler Group. Approval of the Board was obtained for the extension of the above two fund raising investment projects.

During the reporting period, the Company negotiated with an enterprise of the same industry which is headquartered in Germany regarding the acquisition of control. During the period, due to the fierce economic and financial volatility home and abroad, and the extreme uncertainties anticipated in the future, the Board took step to cease the decision on negotiation of such acquisition in avoidance of risks to safeguard the interests of the listed Company. In early 2016, upon amicable negotiation, the Company and the enterprise resumed to negotiation on acquisition of control. The potential acquisition constitutes a substantial asset reorganization of the Company.

## **Zhang Shi Quan**

*Chairman*

Hangzhou, Zhejiang, the PRC  
24 March 2016



# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF CHINA AUTOMOBILE INDUSTRY

In 2015, production and sales volume of China automobile industry was 24,503,300 units and 24,597,600 units respectively, representing an increase of 3.30% and 4.70% respectively as compared with 2014. Production and sales of passenger cars were 21,079,400 units and 21,146,300 units respectively, representing an increase of 5.80% and 7.30% respectively as compared with 2014. Among these, sales volume of China-brand passenger cars was 8,737,600 units, representing an increase of 15.30% as compared with 2014. Production and sales volume of new energy cars was 340,500 units and 331,100 units respectively, representing an increase of 3.3 times and 3.4 times respectively as compared with 2014. Production and sales of commercial vehicles were 3,423,900 units and 3,451,300 units respectively, representing a decrease of 10.00% and 9.00% respectively as compared with 2014. Among commercial vehicles, production and sales volume of buses decreased by 2.70% and 1.90% respectively as compared with 2014; production and sales volume of trucks decreased by 11.40% and 10.30% respectively as compared with 2014. The top ten automaker groups in China sold 22,006,900 units of automobiles, representing an increase of 4.70% as compared with 2014. Their sales represented 89.50% of the total sales of the automobile industry, more or less the same as compared to last year.

## COMPETITIVE ADVANTAGES OF THE COMPANY

Zhejiang Shibao lives up to its role of enhancing safety and comfortability for driving through its abiding R&D on and manufacture of automotive steering systems. As a Tier-1 OEM for an array of sizable automobile groups in China and abroad, the Company has accumulated extensive experiences in OEM supply and built up international customer bases in the industry. The core competitive strengths of the Company are realized in the following five aspects:

- 1) **Leading R&D capacity:** the Company owns a significant number of patents of steering technology including invention patents and new energy automotive steering patents. The Company also owns 3 software copyrights associated with R&D on EPS electronic control unit. Furthermore, in order to embrace the new opportunities and challenges on automotive component companies presented by 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:** refined production model and the ISO:TS16949 quality certification system are adopted throughout all of the major production bases of the Company with an aim to provide customized steering system products with the most reasonable price, latest technology and supreme quality for its customers.
- 3) **Loyal and professional team:** the Company has established a flexible personnel recruitment and incentive scheme to attract domestic and overseas professionals. Our key management and technicians are loyal and has extensive experiences in the industry.
- 4) **High corporate governance standard:** corporate governance and policy of the Company are established to meet listing requirements in the mainland China and Hong Kong with transparent financial reporting and risk control practices. Therefore, our corporate governance is up to international standard.
- 5) **Robust financial position and strong financing capability:** as the only one automotive component company in the PRC listed both in the mainland China and overseas, the Company boasts flexible financing methods.

## MAJOR RISKS AND UNCERTAINTIES

- 1) **Risks relating to industry fluctuations:** The success of automotive components and parts manufacturing industry that the Company is engaged in is subject to the development of downstream automobile industry which is exposed to greater influence by the macroeconomic cycle and the national policies. Should there be any change due to the macroeconomic fluctuations or adjustments to the national policies that results in changes of operating environment of the automobile industry, there will be also corresponding fluctuations to the automotive components and parts manufacturing industry and will in turn subject the Company to the operation risk.
- 2) **Risks relating to product quality:** Automotive steering gear is the key component for automobile that determines the operability, stability and safety of the vehicle. As a result, the quality of steering gear is directly pertinent to the overall vehicular performance. Therefore, automakers will require the Company to provide products that in line with standards according to the related component technical agreements, quality guarantee agreements and other prevailing national standards and industrial practices. Should there arise any problems in relation to product quality, the Company will be liable to repair and replace products with defects and the Company shall bear the related cost incurred therefor. Should there exist any defects in terms of environmental protection or safety that result in recall of vehicles, other than the expenses incurred for such recall, the Company will be also subject to adverse effects on its brand, reputation, market expansion and operating results.
- 3) **Risk relating to downward prices:** Regarding the characteristic of the industry, the overall selling prices of automotive components are subject to the price trend of downstream vehicles. Therefore, automotive component manufacturers has weaker bargaining power against the downstream automakers; In addition, the adjustment to internal product portfolio of the Company will also lead to decline in product price of per unit to some extent. The major customers of the Company are renowned automakers in the PRC. Should the prices of vehicles fall, such customers may pass on the pressure of decreasing prices of vehicles to the Company, which would influence the Company's profitability. Besides, should there be any change in product portfolio due to factors like market demand, the product price per unit may fall and in turn influence the Company's profitability.

# MANAGEMENT DISCUSSION AND ANALYSIS

- 4) Risk relating to price fluctuation of raw materials: The main raw materials of the Company are semi-finished castings (iron or aluminum), steel, cast iron and machined parts, and the cost of raw materials takes up the bigger portion in the cost of production. During the Reporting Period, the cost of raw materials made up 67.68% of the operating cost. Price fluctuations of raw materials exert certain influence on production cost, gross profit margin and customers' expectation on the purchase prices. Should there be any significant changes of the prices of raw materials which is out of expectation over a period, it would expose the Company to certain operating risk.
- 5) Risk relating to higher proportion of accounts receivable: At the end of the reporting period, the carrying amount of the accounts receivable of the Company was RMB326,068,000 accounting for 38.92% of the operating income. The higher absolute amount and proportion of the income of the corresponding period are mainly attributable to the industrial characteristics and methods of sales and settlement. With the fund-raising investment projects of the Company coming into operation, the scale of the Company's businesses will further expand. Therefore, the amount of accounts receivable is likely to rise. Should there is any failure in collection of monies or financial crisis of our customers, it would expose us to the risk of bad debts.
- 6) Risk relating to higher proportion of inventories: High proportion of inventories is one of the features of the automotive component and parts manufacturing industry. At the end of the reporting period, the inventories of the Company amounted to RMB252,400,500, accounting for 13.38% of the total assets of the Company. The characteristic higher inventories of the industry entails higher requirements for the production arrangement and inventory management for the Company. Should the level of inventory management decline, the utilization rate of the Company's capital would decrease, which would have an adverse effect on the production and operation of the Company. In addition, should there be any change of the market demand, the Company would be subject to the risk of loss due to falling prices of the inventory.
- 7) Risk relating to technical innovation: As the automobile industry is developing at a fast pace, automakers' requirements of automotive products in terms of environment protection, energy saving and safety are becoming higher, resulting in the requirements of corresponding technological advance and production innovation for the automotive component production industry which is a part of the automobile industry. Automotive steering system OEMs would prefer the joint development with automakers in general. Should the Company cannot sustain innovation of new technology and new products to cater to the upgrade requirements of automakers, the Company's market expansion and profitability would be subject to the adverse effect. In addition, the advantage of research and development is one of the key factors for the Company to maintain its competitive edges and development. Should there is any dispute arising in terms of technology, leaking of secrets in relation to technologies or loss of key technicians, this would exert adverse effect on the Company's operation.
- 8) Risk relating to overseas market expansion: The sales of the products of the Company primarily focus in China. In recent years, the overseas market expansion has enjoyed early success and the products are exported in bulk. With the Company's growing production capacity and its better understanding of the overseas market, the Company will stably extend its presence to the overseas market on the basis of its existing market in the PRC. Should there arise any significant change in international and political development, it would exert influence on the overseas market expansion of the Company or may affect the Company's operating results and financial position. Therefore, the Company is subject to the risk of overseas market expansions.
- 9) Risk relating to operation management risk arising from expansion in scale: Subsequent to the commencement of the Company's fund-raising investment projects, the Company's assets and business scale will expand rapidly, leading to a higher requirement of the Company's operation management, market expansion and product sales and in turn heightening the complexity of its management and operation. Should the Company cannot adjust its adaptability of its existing management method in a systematic way, this would impose direct effect on the Company's development pace, operation efficiency and business results.
- 10) Risk relating to decrease in return on net assets – Subsequent to the completion of issuance of new shares of the Company in late 2014, as the implementation of fund-raising investment projects requires certain time, income is expected upon completion of all projects. As a result, the Company will be subject to the risk of decrease in return on net assets due to rapid capital expansion in short term.
- 11) Risk relating to the stock market – Other than operation and financial position, the price of the Shares of the Company is also subject to factors such as international and national macroeconomic development, capital market trend, market sentiment and all kinds of material accidents. Investors are reminded to exercise prudent judgements with regard to the expected investment risks brought by the foregoing factors when considering investment in the Shares of the Company.
- 12) Risk relating to the actual controlling shareholders: 55.70% of the Company's Shares is controlled as to by the actual controlling shareholders of the Company and have absolute controlling interest over the Company. Although the Company has established a corporate governance structure and appointed independent directors to reinforce external supervision, actual controlling shareholders may impose influences on material matters such as material capital expenses, related party transactions, appointment and dismissal, and Company's strategies through its shareholding and capacity as decision makers, which may lead to deviation of the Company's decision from the best interests of its minority Shareholders.



# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF OPERATING RESULTS

### 1) Summary

During the reporting period, sales of the Company's passenger cars steering system kept growing, among which sales of electric power steering system increased largely. During the reporting period, the Company recorded a revenue of RMB837,719,325.84, representing an increase of 3.26% as compared with 2014.

During the reporting period, the gross profit margin of the Company's main business was 25.73% (2014: 26.69%). The decrease in the gross profit margin was mainly due to a decrease of products sales price.

During the reporting period, the Company's selling expenses was RMB49,576,514.32, representing a decrease of 9.87% as compared with 2014. Decrease in selling expenses was mainly due to a decrease in the provision of warranty fee and agent fee. The Company's general and administrative expenses were RMB112,288,632.34, representing an increase of 14.47% as compared with 2014. Increase in general and administrative expenses was mainly due to an increase in the research and development expenses, and an increase in professional service fee for a possible acquisition. The Company's financial expenses were RMB3,945,269.12, representing a decrease of 78.82% as compared with 2014. Decrease in financial expenses was mainly due to a decrease of bank borrowings resulted in decrease of interest expenses.

During the reporting period, the Company's research and development expenses was RMB37,068,550.73, representing an increase of 9.54% as compared with 2014. The Company's research and development expenses are mainly used on the research and development of steering system safety, energy saving, light weight and alternative energies, in order to maintain competitiveness of the Company to support its continuous growth.

In view of the above, the Company recorded a net profit attributable to equity holders of the parent of RMB53,540,843.43, representing an increase of 23.44% as compared with 2014.

### 2) Revenue and Cost

#### (1) Revenue

	2015		2014		Change
	Amount	Proportion to revenue	Amount	Proportion to revenue	
Total revenue	837,719,325.84	100%	811,241,906.13	100%	3.26%
<b>By industry</b>					
Manufacture of automotive components and parts	830,146,184.07	99.10%	804,192,522.85	99.13%	3.23%
Others	7,573,141.77	0.90%	7,049,383.28	0.87%	7.43%
<b>By products</b>					
Steering system and parts	783,996,478.42	93.59%	756,933,997.73	93.31%	3.58%
Parts and others	46,149,705.65	5.51%	47,258,525.12	5.82%	-2.35%
Others	7,573,141.77	0.90%	7,049,383.28	0.87%	7.43%

# MANAGEMENT DISCUSSION AND ANALYSIS

(2) Details of industry and product accounted for over 10% of the Company's revenue or operating profit

	Revenue	Operating costs	Gross profit margin	Increase/decrease in revenue over the corresponding period of last year	Increase/decrease in operating costs over the corresponding period of last year	Increase/(decrease) in gross profit margin over the corresponding period of last year
<b>By industry</b>						
Manufacture of automotive components and parts	830,146,184.07	616,527,267.36	25.73%	3.23%	4.57%	-0.96%
<b>By products</b>						
Steering system and parts	783,996,478.42	579,601,567.35	26.07%	3.58%	5.13%	-1.09%

### 3) Cash Flow

Item	2015	2014	Change
Sub-total of cash inflow from operating activities	570,552,522.68	462,302,476.01	23.42%
Sub-total of cash outflow from operating activities	494,792,032.55	373,576,893.21	32.45%
Net cash flow from operating activities	75,760,490.13	88,725,582.80	-14.61%
Sub-total of cash inflow from investing activities	924,497,049.99	34,780,374.79	2,558.10%
Sub-total of cash outflow from investing activities	974,286,475.45	83,680,448.88	1,064.29%
Net cash flow from investing activities	-49,789,425.46	-48,900,074.09	1.82%
Sub-total of cash inflow from financing activities	165,000,000.00	1,004,906,164.00	-83.58%
Sub-total of cash outflow from financing activities	447,388,686.23	358,043,754.17	24.95%
Net cash flow from financing activities	-282,388,686.23	646,862,409.83	-143.66%
Net increase in cash and cash equivalents	-256,809,088.17	684,248,337.12	-137.53%

During the reporting period, cash outflow from operating activities increased by 32.45 comparing to last year, mainly due an increase of cash payment for materials purchasing; cash inflow and outflow from investing activities increase by 2,558.10% and 1,064.29% respectively comparing to last year, mainly due to repayment and purchase of bank wealth management products; cash inflow and net cash flow from financing activities decrease by 83.58 and 143.66% respectively comparing to last year, both mainly due to a decrease in bank borrowings; in view of above, during the reporting period, net increase in cash and cash equivalents decreased by 137.53% comparing to last year.

## ANALYSIS OF ASSETS AND LIABILITIES

### Significant changes in assets

	End of 2015		End of 2014		Change
	Amount	Percentage of total assets	Amount	Percentage of total assets	
Cash on hand and at bank	503,377,298.34	26.69%	760,413,906.65	36.19%	-9.50%
Accounts receivable	326,067,978.19	17.29%	328,448,994.53	15.63%	1.66%
Inventories	252,400,451.28	13.38%	202,149,703.92	9.62%	3.76%
Fixed assets	451,819,102.65	23.96%	449,185,309.04	21.38%	2.58%



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2015, the amount of total loans and borrowings was RMB35,180,000.00 (31 December 2014: RMB278,960,000.00). Total loans and borrowings decreased by RMB243,780,000.00 when compared with the beginning of the year, mainly due to a decrease of short-term bank borrowings. Among which, loans and borrowings of short-term and due within one year amounted to RMB33,800,000.00 (31 December 2014: RMB277,060,000.00), representing a share of 96.08% (31 December 2014: 99.32%) in total loans and borrowings. Loans and borrowings at fixed interest rates amounted to RMB26,380,000.00 (31 December 2014: RMB250,160,000.00).

The Company has issued 38,200,000 RMB ordinary shares (A Shares) by way of non-public offering at issue price of RMB18.46 per share, which raised a gross proceeds of RMB705,172,000 and a net proceeds of RMB658,162,900. On 11 December 2014, the proceeds were deposited to the custodial proceeds account of the Company. The proceeds will be used on projects. The amount of the proceeds actually utilized by the Company from January to December 2015 was RMB100,609,400. As at 31 December 2015, the unutilized proceeds amounted to RMB570,985,400, of which RMB200,000,000 was used to tentatively apply as working capital. Balance of the proceeds account was RMB370,985,400, which included the net amount of accumulated gains from interests from bank deposits and gains from short-term bank wealth management products less bank handling fees and others. The relevant details are set out in “Analysis of investment” section below.

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. 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. At the end of the reporting period, the Company's gearing ratio was 44.57% (2014: 47.42%).

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF INVESTMENT

### Utilization of proceeds

#### (1) General use of proceeds

unit: ten thousand

Year	Fund-raising method	Total amount of proceeds	Total amount of utilized proceeds during the current period	Total amount of accumulated utilized proceeds	Total amount of proceeds with change in use during the reporting period	Total amount of accumulated proceeds with change in use	Proportion of total amount of accumulated proceeds with change in use	Total amount of unutilized proceeds	Use and status of unutilized proceeds	Total amount of idle proceeds for over 2 years
2014	Non-public offering	65,816.29	10,060.94	10,060.94	-	-	-	57,098.54	0.2 billion was used to tentatively apply as working capital, and the remaining portion was placed at the designated account of proceeds, call deposit account and time deposit account	-
Total	-	65,816.29	10,060.94	10,060.94	-	-	-	57,098.54	-	-

#### Explanation on general use of proceeds

As approved by the document [2014] No.1101 issued by the China Securities Regulatory Commission and upon consent of the Shenzhen Stock Exchange, Zhejiang Shibao, with the assistance of Caitong Securities Co., Limited, the lead underwriter, issued 38,200,000 RMB ordinary shares (A Shares) to specific parties by way of non-public offering at the issue price of RMB18.46 per share and the proceeds raised totaled RMB705,172,000. The proceeds, after deduction of underwriting and sponsor expenses of RMB45,125,800, amounted to RMB660,046,200 which was deposited to the custodial proceeds account by Caitong Securities Co., Limited, the lead underwriter, on 11 December 2014. Further, after deduction of the new external expenses directly related to issuance of equity securities of RMB1,883,300 (including accountant fees, solicitor fees and statutory information disclosure expenses), the net proceeds raised amounted to RMB658,162,900. Pan-China Certified Public Accountants LLP has verified the aforementioned proceeds and issued a Capital Verification Report (Tian Jian Yan [2014] No.265) with that regard.

No amount of proceeds was utilized by the Company in the prior year; bank deposit interest received in the prior year, net of handling fees and others, amounted to RMB63,500; in 2015, the actual utilized proceeds amounted to RMB100,609,400; temporary supplement to liquidity was RMB200,000,000; in 2015, bank deposit interest and short-term bank wealth management products income received, net of bank handling fee and others, amounted to RMB13,368,300; the accumulated utilized proceeds amounted to RMB100,609,400; and accumulated bank deposit interest and short term bank wealth management product income, net of bank handling fee and others, amounted to RMB13,431,800.

As at 31 December 2015, the balance of the proceeds account amounted to RMB370,985,400 (including the accumulated bank deposit interest and short-term bank wealth management product income received, net of bank handling fee and others).

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) Projects undertaken with the raised proceeds

unit: ten thousand

Undertaken investment project(s) and use of over-raised proceeds	Changes in project (Partial change included)	Total investment undertaken with raised proceeds	Total investment after adjustment <sup>(1)</sup>	Invested amount during the reporting period	Invested amount as of the end of the period <sup>(2)</sup>	Investment progress as of the end of the period <sup>(3)=(2)/(1)</sup>	Date of project getting ready for its intended use	Achieved results during the reporting period	Achieve the intended results or not	Significant changes in project feasibility
Undertaken investment project(s)										
The increase of production of power automotive steering gears project										
	No	12,800	12,800	6,744.32	6,744.32	52.69%	2016.12.31		Note 1	No
The precious casting and processing of automotive components project										
	No	20,000	20,000	2,219.68	2,219.68	11.10%	2016.12.31	N/A	Note 2	No
The research and development, examination and inspection and trial production centre of automotive steering gear system project										
	No	4,000	4,000	324.89	324.89	8.12%	2016.12.31	N/A	Note 2	No
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project										
	No	34,000	29,016.29	772.05	772.05	2.66%	2016.12.31		Note 2	No
Sub-total of undertaken investment project(s)										
		70,800	65,816.29	10,060.94	10,060.94	-	-	-	-	-
Total										
		70,800	65,816.29	10,060.94	10,060.94	-	-	-	-	-

Condition and reason of lagging behind schedule or not achieving expected return (by project)

“The increase of production of power automotive steering gears project” and “The research and development, examination and inspection and trial production centre of automotive steering gear system project” were falling behind schedule. Please refer to “Explanation on the extension of certain fund-raising investment projects” under this section for details.

Illustration on the significant changes in project feasibility

Nil.

Amount, use and update on use of over-raised proceeds

Nil.

Change in location of fund-raising investment projects

Nil.

Adjustment on the implementation of fund-raising investment projects

Nil.

Preliminary capital and replacement of fund-raising investment projects

As of 31 December 2014, the Company had injected the preliminary capital of RMB49.7674 million from its own fund into the fund-raising investment projects. Upon review and approval in the 22nd meeting of the fourth session of the Board of the Company held on 6 February 2015, the Company used raised proceeds to replace it on 12 February 2015 and 23 March 2015 respectively.



# MANAGEMENT DISCUSSION AND ANALYSIS

Tentative application of idle proceeds as working capital	<p>On 31 December 2014, the 21st meeting of the fourth session of the Board of the Company considered and approved the Company to use the idle proceeds of RMB65 million to tentatively apply as working capital for a term of 12 months commencing from the date of approval by the Board. The Company effectively utilised RMB65 million to tentatively apply as working capital. In June 2015, the balance was returned to the designated proceeds account in full.</p> <p>On 30 June 2015, the 1st meeting of the fifth session of the Board of the Company considered and approved the Company to use the idle proceeds of RMB200 million to tentatively apply as working capital for a term of 12 months commencing from the date of approval by the Board. The Company effectively utilised RMB200 million to tentatively apply as working capital. As of 31 December 2015, the balance was yet to be expired.</p>
Amount of and reason for the balance of proceeds from the implementation of project	Not applicable.
Use and status of unutilised proceeds	As of 31 December 2015, the balance of unutilised proceeds of the Company amounted to RMB370.9854 million. Such balance was placed at the designated proceeds account, call deposit account and term deposit account, of which RMB200 million was tentatively applied as working capital. The proceeds will continue to be applied in the implementation of fund-raising investment projects.
Issues or other conditions from the use and disclosure of proceeds	Nil.
Note 1:	Since the “The increase of production of power automotive steering gears project” (汽車液壓助力轉向器擴產項目) is not yet ready for intended use, a comparative disclosure is not currently required for the realised benefits against the committed benefits as estimated in the initial public offering and the non-public offering, respectively.
Note 2:	Except for the “The research and development, examination and inspection and trial production centre of automotive steering gear system project” (汽車轉向系統研發、檢測及試製中心項目) and the “Precious Casting and Processing of Automotive Components Project” (汽車零部件精密鑄件及加工建設項目) which are unable to individually assess the benefits, the fund-raising investment projects of the Company are not yet ready for intended use.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) Explanation on the extension of certain fund-raising investment projects

“The increase of production of power automotive steering gears project” (汽車液壓助力轉向器擴產項目) and “The research and development, examination and inspection and trial production centre of automotive steering gear system project” (汽車轉向系統研發、檢測及試製中心項目) are scheduled to be ready for intended use by 31 December 2015. In 2014, the hydraulic power steering gear products of Hangzhou Shibao passed severe tests at German testing facilities of Daimler Group, following which Daimler Group officially commenced comprehensive review on the R&D, production, quality, logistics and management of Hangzhou Shibao in 2015. After multiple reviews by the German experts of Daimler, Hangzhou Shibao was finally nominated by Daimler Group as the global steering supplier of Daimler trucks and buses in October 2015. During that period, the departments of technology, procurement, supplier management of Daimler Group exchanged ideas with Hangzhou Shibao in respect of product development, supply agreement and quality requirement. Daimler Group is the proven leader in the global premium automobile market and satisfies the Company’s development strategy on high-end and globalised upgrade of auto parts and components. Hangzhou Shibao made appropriate adjustment to the particular specifications and models of equipment and facilities that were originally invested in as proposed in “The increase of production of power automotive steering gears project” (汽車液壓助力轉向器擴產項目) and “The research and development, examination and inspection and trial production centre of automotive steering gear system project” (汽車轉向系統研發、檢測及試製中心項目). Such adjustment further enhanced the degree of automation and anti-error performance of such equipment and facilities and enabled Hangzhou Shibao to fully satisfy the high quality requirements from world-class automobile manufacturers, including Daimler Group. The adjustment to the finalisation of models of equipment and facilities is subject to multiple discussions, including the views from Daimler experts, which accordingly affected the construction progress of the projects and thus resulted in the inability to be ready for intended use as scheduled.

As at the date of this report, approval of the Board was obtained for the extension of “The increase of production of power automotive steering gears project” (汽車液壓助力轉向器擴產項目) and “The research and development, examination and inspection and trial production centre of automotive steering gear system project” (汽車轉向系統研發、檢測及試製中心項目). Please refer to the announcements dated 25 March 2015 in relation to the “Announcement of Extension of Certain Fund-raising Investment Projects” published by the Company in Securities Times, and on [www.cninfo.com.cn](http://www.cninfo.com.cn) (巨潮資訊網) for details.

## (4) Changes in use of proceeds

The Company made no change to the use of proceeds during the reporting period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK INTO THE FUTURE DEVELOPMENT OF THE COMPANY

### 1) Industry landscape and trend

The growth of vehicle sales volume in the PRC declined and tended to become stable, posing both challenges and great opportunities to the automotive components manufacturing corporates. The industry is seen with high concentration and will face a new round of mergers and acquisitions. The Company will be more focused on the innovation, quality and efficiency of new energy vehicles and smart internet automotive accessory products and pursue to be more customer-driven and meet the demand of its customers by stepping up its bargaining power. As a result, the Company will emerge as a top-notch prominent international automotive component brand.

Internet technologies accelerates the change over the traditional automobile as autonomous cars are putting into trial operation in some regions in U.S. implying that application of intelligent systems in automobile is an inevitable trend. Automotive component corporates intend to go beyond the Chinese market in terms of business development and seek to speed up their paces to break into the international arena strategically and promote international cooperation of production capacities.

In 2015, ZF Group (German) completed its acquisition of TRW Systems Group (U.S.) and emerged as one of the top three automotive suppliers in the world. Playing the role as an automotive component supplier (driveline system and chassis technologies), ZF Group complemented itself with active and passive safety technology and turned out to be a system supply giant with leadership in the automotive industry.

### 2) Development strategy of the Company

Zhejiang Shibao commits itself to improving safety and comfortability in driving. The Company endeavors to become a supplier to provide global leading automotive groups with safe, energy-saving, light-duty and new energy automotive steering system. Meanwhile, Zhejiang Shibao will develop and enhance the mechanical and electronic integration technology that make driving safer and comfort through both independent R&D, and mergers and acquisitions, eventually achieving its strategic goal of becoming a global leading automotive group providing intelligent driving solutions.

Automotive steering system is the core safety system for automotive. OEM business for automotive steering system entails certification of ISO:TS16949 quality certification system which is recognized by the global automotive industry and the supplier qualification evaluation of automotive groups. As a result, the entry barrier of this industry is high. Customized development is required for the automotive steering system used in new car models, for which the development cycle is long while technological requirement is high. Moreover, the industry also has more rigorous requirements for overall competence of suppliers including capital, R&D and management quality.

The Company is one of the early movers in the independent development of hydraulic power steering system and electric power steering (EPS) system in the PRC with over 30 years of OEM experience in the automotive industry. The Group has a diversified customer base of international automakers, making itself a top-class OEM supplier for a bunch of reputable automotive groups. Leveraging its profound experience in automotive electronic technologies for so many years, the Company makes its EPS electronic technologies standing apart from that of its peers in the PRC. The Company plans to pioneer the intelligent driving technology and mechanical-electrical integration technologies in the industry through acquisition of state-of-the-art technologies and corporates abroad, complemented by its rich experience accumulated, in order to keep up its competitive strength for sustainable development.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 3) Business plan

During the reporting period, the Company recorded a profit in line with its forecast. During the reporting period, the progress of two fund-raising investment projects, namely “The increase of production of power automotive steering gears project” (汽車液壓助力轉向器擴產項目) and “The research and development, examination and inspection and trial production centre of automotive steering gear system project” (汽車轉向系統研發、檢測及試制中心項目) executed by Hangzhou Shibao, a subsidiary of the Company, lagged behind the planned schedule, primarily attributed to a review across the board on Hangzhou Shibao conducted by the Daimler Group. As at the date of this report, approval of the Board was obtained for the extension of the above two fund-raising investment projects.

During the reporting period, the Company negotiated with an enterprise of the same industry which is headquartered in Germany regarding the acquisition of control. During the period, due to the fierce economic and financial volatility home and abroad, and the extreme uncertainties anticipated in the future, the Board took step to cease the decision on negotiation of such acquisition in avoidance of risks to safeguard the interests of the listed Company. In early 2016, upon amicable negotiation, the Company and the enterprise resumed to negotiation on acquisition of control. The potential acquisition constitutes a substantial asset reorganization of the Company. Please refer to the announcements published by the Company in Securities Times, and on [www.cninfo.com.cn](http://www.cninfo.com.cn) (巨潮資訊網) and Hong Kong Stock Exchange’s website for the relevant particulars.

Despite the continuous slowdown of automotive market in the PRC in 2016, the Company’s new energy technology innovation introduced and our progress to break into the international arena accelerated in the recent years, resulting in a remarkable increase in efficiency. It is expected that sales and net profit will remain to increase by a greater extent while the investment in intelligent driving technology will continue to increase and become full-fledged in 2016, making us a pioneer in the industry to achieve marketization and large-scale production in the PRC.

## MATERIAL ACQUISITION AND DISPOSAL

In 2015, the Group did not have any material acquisition and disposal concerning subsidiaries and associates.

## PLEDGE OF ASSETS

As at 31 December 2015, save for the assets with restricted ownership rights and rights in use as set out on page 100 of this annual report, the Group did not have any other material security on its assets.

The aggregate of the above assets with restricted ownership rights and rights in use amounted to RMB60,622,583.28, including secured notes receivable of RMB30,654,323.45, representing the security for the issuance of the bank acceptance bills, and restricted monetary fund of RMB17,328,625.03, representing the guarantee deposits for the issuance of the bank acceptance bills.

## FOREIGN CURRENCY EXPOSURE

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

## CAPITAL COMMITMENTS

As at 31 December 2015, apart from commitments set out in page 112 in the annual report, the Group has no other material capital commitments.

## CONTINGENT LIABILITIES

As at 31 December 2015, the Group has no material contingent liabilities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 1,764 employees as at 31 December 2015 (2014: 1,658). For the reporting period, total staff salaries and welfares costs amounted to RMB129,537,631.72 (2014: RMB109,013,371.52). The Group provided substantial remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC.

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

Our Company and its subsidiaries make contributions to municipal government retirement scheme for their respective qualified employees in the PRC. According to applicable PRC laws, both employers and employees are required to make contributions to the scheme at the specified rates pursuant to the rules of the scheme. The only obligation of our Company and its subsidiaries with respect to the scheme is to make the required contributions. The contributions payable under the scheme were properly accrued for the year ended 31 December 2015.

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

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

Mr. Zhang Shi Quan (張世權), aged 66, is the Chairman and General Manager of the Company. He is a Chinese national with no permanent residence abroad. He is a senior economist. Since 12 June 2004, he has been appointed as the Chairman and General Manager of the Company. Mr. Zhang was awarded the title of “China Outstanding Private Entrepreneurs” (中國優秀民營企業家). He was also awarded “Top Ten Distinguished Persons for the Second Year for China’s Industrial Economy” (第二屆中國工業經濟年度十大傑出人物) granted by the Office for Election of Distinguished Persons for China’s Industrial Economy (中國工業經濟年度人物評選辦公室) in 2006. Mr. Zhang’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Zhang is also a director of Shibao Holding; an executive director of Hangzhou Shibao; the chairman of Siping Steering and Wuhu Sterling; and a director of Jilin Shibao, Hangzhou New Shibao, Beijing Autonics and Anhui Changshan. Mr. Zhang Shi Quan is the elder brother of Mr. Zhang Shi Zhong and is the father of Mr. Zhang Bao Yi and Ms. Zhang Lan Jun. Mr. Zhang Shi Quan is the father-in-law of Mr. Tang Hao Han. Shibao Holding is the Controlling Shareholder of the Company, of which Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Mr. Zhang Shi Zhong are the actual controllers.

Mr. Zhang Bao Yi (張寶義), aged 43, is a vice Chairman and deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor’s degree. Since 12 June 2004, he has been appointed as vice Chairman and deputy general manager of the Company. Mr. Zhang was granted the title of “Labour Model of Yiwu City” (義烏市勞動模範) in 2004. Mr. Zhang’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Zhang is also the chairman of Hangzhou New Shibao and Beijing Autonics; a director of Wuhu Sterling and Anhui Changshan; and the general manager of Hangzhou Shibao. The relationship between Mr. Zhang Bao Yi and the Directors and Controlling Shareholder of the Company is disclosed in the foregoing paragraph about Mr. Zhang Shi Quan.

Mr. Tang Hao Han (湯浩瀚), aged 48, is a vice Chairman and deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a doctor’s degree. Since 12 June 2004, he has been appointed as vice Chairman and deputy general manager of the Company. Mr. Tang was awarded the “Outstanding Entrepreneur of Jilin Province” (吉林省優秀企業家), “Labour Model of Jilin Province” (吉林省勞動模範), “National Outstanding Youth Entrepreneur Leader” (全國青年興業領頭人), “Outstanding Entrepreneur of National Privately-Owned Technological Enterprises” (全國優秀民營科技企業家) and “National Labour Day Medal” (國家「五一」勞動獎章). Mr. Tang’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Tang is also the chairman of Jilin Shibao; a director and the general manager of Siping Steering; and a director of Anhui Changshan. The relationship between Mr. Tang Hao Han and the Directors and Controlling Shareholder of the Company is disclosed in the foregoing paragraph about Mr. Zhang Shi Quan.

Ms. Zhang Lan Jun (張蘭君), aged 41, is the finance Director of the Company. She is a Chinese national with no permanent residence abroad. She has a master’s degree. Since 12 June 2004, she has been appointed as the finance Director of the Company. Ms. Zhang has over 10 years of experience in finance and accounting. Ms. Zhang’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Ms. Zhang is also a finance manager of Hangzhou Shibao and a director of Anhui Changshan. The relationship between Ms. Zhang Lan Jun and the Directors and Controlling Shareholder of the Company is disclosed in the foregoing paragraph about Mr. Zhang Shi Quan.

## NON-EXECUTIVE DIRECTORS

Mr. Zhu Jie Rong (朱頡榕), aged 68, is a Director of the Company. He is a Chinese national with no permanent residence abroad. He has a college’s degree and is an engineer. Since 12 June 2004, he has been appointed as a Director of the Company. From 12 June 2004 to 31 December 2012, he was a deputy general manager of the Company. Mr. Zhu’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Zhu is also a supervisor of Shibao Holding.

Mr. Zhang Shi Zhong (張世忠), aged 55, is a Director of the Company. He is a Chinese national with no permanent residence abroad. Since 12 June 2004, he has been appointed as a Director of the Company. Mr. Zhang’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Zhang is also the chairman of Shibao Holding and Anhui Changshan. The relationship between Mr. Zhang Shi Zhong and the Directors and Controlling Shareholder of the Company is disclosed in the foregoing paragraph about Mr. Zhang Shi Quan.



# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Hong Zhi (張洪智), aged 50, is an independent Director of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is an economist. Mr. Zhang has over 20 years of experience in areas of banking, securities and investment. Mr. Zhang is currently an independent consultant. Since 20 June 2011, Mr. Zhang has been appointed as an independent Director of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018.

Mr. Guo Kong Hui (郭孔輝), aged 81, is an independent Director of the Company. He is a Chinese national with no permanent residence abroad, has a Bachelor's degree. Mr. Guo is a professor, PHD supervisor, academician of China Academy of Engineering (中國工程院院士). Currently, Mr. Guo is Honorary President of College of Automotive Engineering of Jilin University (吉林大學汽車工程學院名譽院長), Chairman of Technology Committee of Vehicle Dynamics Sub-Committee of National Automotive Standardization Technical Committee (全國汽車標準化技術委員會車輛動力學分會技術委員會主任委員), a specially invited member of Specialists Committee of China Machinery Industry Federation (中國機械工業聯合會專家委員會特邀委員), a specially invited director of China Mechanical Engineering Society (中國機械工程學會特邀理事), a member of National Auto Calculation Platform Engineering Strategic Guidance Team of China Ministry of Industry and Information Technology (中國工業和資訊化部「國家汽車計算平台工程戰略指導組」成員), a honorary member of China Association for Science and Technology (中國科學技術協會榮譽委員), an advisor of Society of Automotive Engineers of China (中國汽車工程學會顧問) and an advisor of Academic Committee of State Key Laboratory of Automotive Simulation and Control (汽車動態模擬國家重點實驗室學術委員會顧問). Mr. Guo is also an independent director of Hualing Xingma Automobile Co., Ltd. (a company listed on Shanghai Stock Exchange). In 2013, Mr. Guo was selected as one of the "Ten Outstanding Contributed Person of the 60th Anniversary of China Automobile Industry" (中國汽車工業60周年10位卓越貢獻人物). Since 30 June 2014, Mr. Guo has been appointed as an independent Director of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018.

Mr. Shum Shing Kei, aged 45, an independent Director of the Company, with Chinese nationality and being a permanent citizen of Hong Kong Special Administrative Region of the People's Republic of China, holds a postgraduate degree. Mr. Shum graduated from the Hong Kong Polytechnic University majored in accountancy and obtained a master's degree in financial management from University in London, the United Kingdom. Mr. Shum is a fellow member of the Hong Kong Institute of Certified Public Accountants. Since September 2010, Mr Shum has acted as a practicing partner of CC Alliance CPA & Co. Mr. Shum is currently an independent director of Nanjing Sample Technology Company Limited, a company listed on the main board of Hong Kong Stock Exchange. Since 30 June 2015, Mr. Shum has been appointed as an independent Director of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018.

## SUPERVISORS

Mr. Du Min (杜敏), aged 61, is the chairman of the Supervisory Committee of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree. Since 2002, he was appointed as an assistant to general manager of Siping Steering. Since 1 June 2007, Mr. Du has been appointed as the chairman of the Supervisory Committee of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018.

Mr. Yang Di Shan (楊迪山), aged 77, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is a senior engineer. Mr. Yang retired from FAW Group in 1998. Since 5 June 2009, Mr. Yang has been appointed as a Supervisor of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Yang is also a director of Shibao Holding.

Mr. Wu Lang Ping (吳琅平), aged 53, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a college's degree. Since 1993, he has been appointed as a manager of technical and process department of Hangzhou Shibao. Since 5 June 2009, he has been appointed as a Supervisor of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Shen Song Sheng (沈松生), aged 78, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He retired from the Company in 2009. Since 12 June 2004, Mr. Shen has been appointed as a Supervisor of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018.

Ms. Feng Yan, aged 51, is a Supervisor of the Company. She is a Chinese national with no permanent residence abroad. She has a bachelor's degree and is an associate professor. She has served as a professor at the Zhejiang University of Finance and Economics since September 2000. Since 30 June 2015, Ms. Feng has been appointed as a Supervisor of the Company. Her current term was effective from 30 June 2015 and is valid till 30 June 2018.

## SENIOR MANAGEMENT

Mr. Yu Zhong Chao (虞忠潮), aged 51, is a deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is an engineer. Since 11 August 2006, he was appointed as a deputy general manager of the Company.

Ms. Liu Xiao Ping (劉曉平), aged 45, is a deputy general manager and the Board secretary of the Company. She is a Chinese national with no permanent residence abroad. She has a master's degree. Since 2006, she was appointed as a director of securities and investment department of the Company. Since 13 May 2011, she was appointed as the Board secretary of the Company. Since 27 December 2013, she was appointed as a deputy general manager and the Board secretary of the Company.

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

Ms. Huen Lai Chun (禰麗珍), aged 50, is the company secretary of the Company. Since May 2009, she has been appointed as the company secretary and authorised representative of the Company under the Listing Rules of Hong Kong Stock Exchange. Ms. Huen is a fellow of The Association of Chartered Certified Accountants, and an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Huen has over 10 years of professional experience in company secretarial work, professional auditing, accounting and financial management.

# REPORT OF THE DIRECTORS

The Board hereby presents the annual report and audited financial statements of the Group for the year ended 31 December 2015.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group has committed itself to the research and development of automotive steering gear products and mainly engaged in the develop, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The activities of its subsidiaries are set out in pages 102 and 103 in the annual report. Analysis of operating segment is set out in page 112 in the annual report. Further discussion and analysis of businesses required under Schedule 5 to the Hong Kong Companies Ordinance, including the discussion on the major risks and uncertainties that the Group is subject to and the indication of likely development of the Group's business in the future) is set out in the "Management Discussion and Analysis" on pages 10 to 11 of this annual report. These discussions form part of this "Report of the Directors".

### Important events after reporting period

The Company is in the process of negotiating with an enterprise of the same industry which is headquartered in Germany regarding the acquisition of control. The possible acquisition constitutes a substantial asset reorganization of the Company. Please refer to the announcements of the Company dated 24 February 2016, 2 March 2016, 9 March 2016, 16 March 2016 and 23 March 2016 in relation to the updates on the possible acquisition for the relevant particulars.

### Environmental policies and performance

The Company is committed to the research and application on energy conservation, lightweight and new energy technology for the Company's products and complies with related applicable environmental laws and regulations in its production and operation.

### Compliance with laws and regulations

The company has complied with related applicable laws and regulations in term of industrial and commercial registration, social security and product quality.

### Relationship with stakeholders

With provision of quality products and services, the Company creates value for its customers, employees and shareholders with an aim to become a public company with social commitment. Meanwhile, the Board of the Company considers that good relationship is maintained by the Company and its employees. Please refer to "Employee and remuneration policy" in "Management Discussion and Analysis" on page 21 of this annual report for details.

## RESULTS

Results of the Group for the year ended 31 December 2015 are set out in page 46 in the annual report.

## FIVE-YEAR FINANCIAL SUMMARY

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

## FINAL DIVIDENDS

The Board recommended the payment of a final cash dividend of RMB1.00 per 10 Shares (inclusive of applicable tax) for the year ended 31 December 2015 ("Final Dividend"), with a total amount of dividend of RMB31,585,785.50. The distribution proposal is subject to consideration and approval at the Company's 2015 annual general meeting.

The Company will issue a separate announcement regarding the record date and date of closure of register of members for the payment of Final Dividend to the holders of H Shares. It is expected that the Final Dividend will be distributed on or before 31 August 2016 to holders of H Shares of the Company.

Under relevant regulations of China Securities Depository and Clearing Corporation and according to the market practice adopted for dividend distribution for A shares, the Company will publish a separate announcement in respect of the Final Dividend distribution to the holders of A Shares of the Company after the Company's 2015 annual general meeting to determine the record date and ex-rights date for Final Dividend distribution to the holders of A Shares.

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

# REPORT OF THE DIRECTORS

## FINAL DIVIDENDS *(continued)*

### **Withholding and payment of income tax on Final Dividend**

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

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

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

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

- For Individual H Shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the Individual H Shareholders in the distribution of Final Dividend;
- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of the Individual H Shareholders in the distribution of Final Dividend. If relevant Individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Company will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Notice. Qualified shareholders please submit in time a letter of entrustment and all application materials as required under the Tax Notice to the Company's H share registrar, Computershare Hong Kong Investor Services Limited. The Company will then submit the above documents to competent tax authorities and, after their examination and approval, the Company will assist in refunding the excess amount of tax withheld and paid;
- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of the Individual H Shareholders in the distribution of Final Dividend; and
- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the Individual H Shareholders in the distribution of Final Dividend.

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

## SHARE CAPITAL

Details of changes of the Company's share capital during the year are set out in note 5.(1)26 to the consolidated financial statements in the annual report.

## EQUITY-LINKED AGREEMENTS

There were no equity-linked agreements existed or entered into by the Group during the year under review.

# REPORT OF THE DIRECTORS

## CONVERTIBLE DEBENTURES

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

## RESERVES

Reserves of the Group and its changes during the year prepared in accordance with China Accounting Standards for Business Enterprises are set out in the Consolidated Statement of Changes in Equity, and details of the relevant reserves are set out in notes 5.(1)27, 28 and 29 to the consolidated financial statements in the annual report.

## DISTRIBUTABLE RESERVE

As at 31 December 2015, the Company's distributable reserve is RMB341,181,295.69 (2014: RMB323,380,540.91), and the relevant details are set out in note 5.(1)29 to the consolidated financial statements in the annual report.

## PROPERTIES, PLANT AND EQUIPMENT

Details of changes of the Group's properties, plant and equipment during the year are set out in note 5.(1)8 to the consolidated financial statements in the annual report.

## BORROWINGS

Details of the Group's bank and other borrowings as at 31 December 2015 are set out in notes 5.(1)14, 22 and 24 to the consolidated financial statements in the annual report.

## DIRECTORS AND SUPERVISORS

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

### Executive Directors

Mr. Zhang Shi Quan (張世權) (*Chairman and General Manager*)  
Mr. Zhang Bao Yi (張寶義) (*Vice Chairman and Deputy General Manager*)  
Mr. Tang Hao Han (湯浩瀚) (*Vice Chairman and Deputy General Manager*)  
Ms. Zhang Lan Jun (張蘭君) (*Finance Director*)

### Non-executive Directors

Mr. Zhang Shi Zhong (張世忠)  
Mr. Zhu Jie Rong (朱頡榕) (*redesignated from executive Director to non-executive Director on 30 June 2015*)  
Mr. Lou Run Zheng (樓潤正) (*resigned on 30 June 2015*)

### 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) (*appointed on 30 June 2015*)  
Mr. Chau Kam Wing, Donald (周錦榮) (*resigned on 30 June 2015*)  
Mr. Zhao Chun Zhi (趙春智) (*resigned on 30 June 2015*)

### 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) (*appointed on 30 June 2015*)  
Mr. Wang Kui Quan (王奎泉) (*resigned on 30 June 2015*)

The term of all current Directors and Supervisors was effective from 30 June 2015 and is valid till 30 June 2018.



# REPORT OF THE DIRECTORS

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

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

## REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the remuneration of Directors, Supervisors and the five highest paid employees are set out in pages 110 and 111 in the annual report.

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

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

## STANDARDS FOR DETERMINING THE REMUNERATION OF DIRECTORS AND SUPERVISORS

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

## RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2015 are set out in note 8.(2) to the consolidated financial statements in the annual report. These related party transactions are not those discloseable connected transactions governed by Chapter 14A of the Listing Rules.

The Company has no transactions which are subject to the connected transaction disclosure requirements under the Listing Rules of Hong Kong Stock Exchange for the year ended 31 December 2015. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

# REPORT OF THE DIRECTORS

## DISCLOSURE OF THE INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 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 to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

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

Name of Director	Capacity	Number of A Shares	Approximate percentage of shareholding in same class of shares	Approximate percentage in the Company's total issued share capital
Mr. Zhang Shi Quan	Interest in a controlled corporation ( <i>Note</i> )	165,387,223 (Long positions)	72.18%	52.36%
		20,000,000 (Short positions)	8.73%	6.33%
	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.

### (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 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.

# REPORT OF THE DIRECTORS

DISCLOSURE OF THE INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

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

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

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

Save as disclosed above, as at 31 December 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, underlying Shares or debentures of the Company or any of its associated corporations (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 the Division 7 & 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to the Model Code to be notified to the Company and the Hong Kong Stock Exchange.

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, so far as is known to the Directors of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions and short positions in Shares of the Company:

Name of Shareholder	Capacity	Number and class of shares	Approximate percentage of shareholding in same class of shares	Approximate percentage in the Company's total issued share capital
Shibao Holding	Beneficial owner (Note 1&2)	165,387,223 A Shares (Long positions)	72.18%	52.36%
		20,000,000 A Shares (Short positions)	8.73%	6.33%
Mr. Zhang	Interest in controlled corporation (Note 1&2)	165,387,223 A Shares (Long positions)	72.18%	52.36%
		20,000,000 A Shares (Short positions)	8.73%	6.33%
	Beneficial owner (Note 2)	10,556,632 A Shares (Long positions)	4.61%	3.34%
Deutsche Bank Aktiengesellschaft	Beneficial owner	4,340,920 H Shares (Long positions)	5.01%	1.37%
		340,000 H Shares (Short positions)	0.39%	0.11%

Note:

- (1) As at 31 December 2015, Shibao Holding owned 165,387,223 A Shares of the Company. As Mr. Zhang holds 40% interest in the registered capital of Shibao Holding, Mr. Zhang is deemed to be interested in all of the 165,387,223 A Shares of the Company held by Shibao Holding.
- (2) Mr. Zhang's interest in these 175,943,855 A Shares of the Company, including 165,387,223 A Shares owned by Shibao Holding and 10,556,632 A Share directly owned by himself, are also disclosed in the paragraph headed "Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, underlying Shares and debentures of the Company and its associated corporations". These 165,387,223 A Shares owned by Shibao Holding represent the same interest and therefore duplicate amongst Shibao Holding and Mr. Zhang.

Save as disclosed above, as at 31 December 2015, the 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.

# REPORT OF THE DIRECTORS

## ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

During the year under review, none of the Company, any of its subsidiaries, its holding company or any subsidiaries of its 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 year ended 31 December 2015, the Company has not implemented any share option scheme.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

## COMPETING INTERESTS

During the year under review, none of the Directors or their respective associates has an interest in a business which competes or may compete with the business of the Group, or has an interest in a Company which may have conflicts of interest with the Group's business.

## PERMITTED INDEMNITY PROVISION

There is no provision of permitted indemnity set forth in the Articles of Association of the Company that entitles each Director to be indemnified out of the assets of the Company from and against all losses or liabilities which he may suffer or incur arising from discharging his duty or being involved in litigation, whether civil or criminal.

## MANAGEMENT CONTRACTS

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

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, purchases attributable to the Group's five largest suppliers and revenue attributable to the five largest customers represented 26.30% and 70.59% of the Group's total purchases and total revenue respectively. In addition, the largest supplier and the largest customer represented 9.76% and 27.22% of the Group's total purchases and revenue respectively.

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

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

As at 31 December 2015, neither the Company nor any of its subsidiaries have 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 existing Shareholders.



# REPORT OF THE DIRECTORS

## PUBLIC FLOAT

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

## CORPORATE GOVERNANCE

The Corporate Governance Report adopted by the Company is set out in page 35 to page 41 in the annual report.

## AUDITORS

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

The financial statements for the year ended 31 December 2015 have been audited by Pan-China Certified Public Accountants LLP.

By order of the Board

**Zhang Shi Quan**

*Chairman and General Manager*

Hangzhou, Zhejiang, the PRC

24 March 2016

# REPORT OF THE SUPERVISORY COMMITTEE

To all shareholders:

For the year 2015, the Supervisory Committee carefully discharged its duties in strict compliance with the related provisions of the Company Law of the PRC, the Listing Rules of Hong Kong Stock Exchange, the Stock Listing Rules of Shenzhen Stock Exchange, the Articles of Association and the Organization and Procedural Rules and Regulations for the Meetings of the Supervisory Committee.

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

The Supervisory Committee is of the view that all members of the Board and other senior management of the Company have honestly and diligently discharged their duties, strived to maintain the interests of shareholders and made great efforts to the operating results of the Company in 2015. No violation of laws and regulations of the PRC or the place of listing and the Articles of Association of the Company have been discovered during the discharge of their duties. The Supervisory Committee is optimistic about the prospect of the Company.

Having reviewed the financial statements for the year ended 31 December 2015 prepared by Pan-China Certified Public Accountants LLP based on China Accounting Standards for Business Enterprises, the Supervisory Committee is of the view that the financial statements provide an objective, true and full view of the financial position and operating results of the Company.

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

By order of the Supervisory Committee

**Du Min**

*Convenor of the Supervisory Committee*

Hangzhou, Zhejiang, the PRC

24 March 2016

# CORPORATE GOVERNANCE REPORT

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interest of all of its stakeholders. The Company's commitment to the highest standards of corporate governance is driven by the Board who, led by the Chairman, assume overall responsibility for the governance of the Company, taking into account the interests of the Company's stakeholders, the development of its business, and the changing external environment. This report describes how the principles of the CG Code have applied during the year ended 31 December 2015 under different aspects.

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

Under code provision A.2.1, the roles of the chairman and the chief executive shall be separated, and shall not be undertaken by the same individual. Mr. Zhang Shi Quan has been the Chairman and General Manager of the Company during the year under review. Mr. Zhang Shi Quan is the Company's founder, and is responsible for overseeing the overall strategic planning, new business development, acquisition and merging. In view of the nature of the Company's business, the Board considers that the current management structure arrangement is considerably effective in making response over market changes and finalization of strategic plans. The Board will review the efficiency of this management structure arrangement from time to time.

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

Under code provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Lou Run Zheng (non-executive Director), Mr. Guo Kong Hui (independent non-executive Director) and Mr. Chau Kam Wing, Donald (independent non-executive Director) were unable to attend the Company's annual general meeting held on 30 June 2015 due to their other important business engagements.

## MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in the Model Code. The Company had made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding Directors' securities transactions during the year under review.

# CORPORATE GOVERNANCE REPORT

## COMPOSITION OF THE BOARD AND BOARD PRACTICES

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

The Board holds regular board meetings at least four times each year. For the year under review, the Board held eleven meetings in total.

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

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment and Strategy Committee	2014 AGM
Number of Meetings	11	5	2	2	1	1
<b>Executive Directors</b>						
Zhang Shi Quan	11/11				1/1	1/1
Zhang Bao Yi	11/11				1/1	1/1
Tang Hao Han	11/11				1/1	1/1
Zhang Lau Jun	11/11			2/2		1/1
<b>Non-executive Directors</b>						
Zhang Shi Zhong	11/11	5/5	2/2			1/1
Zhu Jie Rong	11/11					1/1
Lou Run Zheng (resigned on 30 June 2015)	6/6					0/1
<b>Independent non-executive Directors</b>						
Zhang Hong Zhi	10/11	5/5	2/2	1/1		1/1
Guo Kong Hui	10/11					0/1
Shum Shing Kei (appointed on 30 June 2015)	5/5	2/2	1/1	1/1		0/0
Chau Kam Wing, Donald (resigned on 30 June 2015)	6/6	3/3	1/1	1/1		0/1
Zhao Chun Zhi (resigned on 30 June 2015)	5/6			1/1		1/1

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

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

The term of all current non-executive Directors was effective from 30 June 2015 and is valid till 30 June 2018.

# CORPORATE GOVERNANCE REPORT

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

Mr. Zhang Shi Zhong (a non-executive Director of the Company) is the younger brother of Mr. Zhang Shi Quan (Chairman and General Manager of the Company). Mr. Zhang Bao Yi (an executive Director of the Company) is the son of Mr. Zhang Shi Quan. Ms. Zhang Lan Jun (an executive Director of the Company) is the daughter of Mr. Zhang Shi Quan. Mr. Tang Hao Han (an executive Director of the Company) is the son-in-law of Mr. Zhang Shi Quan. Shibao Holding is the Controlling Shareholder of the Company, and Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Mr. Zhang Shi Zhong are the effective controllers of the Company. Saved as the above and disclosed in “Directors, Supervisors and Senior Management” section of this annual report, there is no other financial, business, family or material relationship between the members of the Board.

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

The Board is focused on the overall strategies and policies, in particular on the growth and financial performance of the Group. 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 comfort jointly by independent R&D and merger & acquisition. Meanwhile, the Company is also focused on the market expansion to the middle to high end market and global sourcing business, as well as the volume production of EPS products.

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

## FUNCTIONS OF CORPORATE GOVERNANCE

The Board is responsible for the formulation of the corporate governance policy of the Company and discharging the duties in respect of corporate governance as below:

- (i) developing and reviewing the Company’s policies and practices on corporate governance, as well as making recommendations;
- (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management;
- (iii) reviewing and monitoring the Company’s policies and practices in compliance with all legal and regulatory requirements (as appropriate);
- (iv) developing, reviewing and monitoring the code of conduct and compliance guideline (if any) applicable to all employees and Directors of the Group; and
- (v) reviewing the Company’s compliance with the Corporate Governance Code and disclosure requirements for the Corporate Governance Report.



# CORPORATE GOVERNANCE REPORT

## INDUCTION AND DEVELOPMENT

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

During the year under review, the Company arranged one training for the Directors, relating to the listing rules of Shenzhen Stock Exchange. All Directors shall provide their training record to the Company once every six months.

## INTERNAL CONTROL

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

The Company's internal audit department reviews the internal control of the Group from time to time, which covers all the material aspects of monitoring, including financial control, operation control, compliance control and risk management functions, and the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The Company's internal audit department has submitted the internal audit report in relation to the review of internal control for the year 2015.

In addition, the Company engaged Pan-China Certified Public Accountants LLP to be the Company's internal control auditor during the reporting period. Pan-China Certified Public Accountants LLP is of the view that the Company has maintained effective internal control of financial report in all material aspects as of 31 December 2015 in accordance with the Basic Standard for Corporate Internal Control and relevant regulations.

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

## 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). During the year under review, the Remuneration Committee held two meetings to review and approve the resolution on the proposed remuneration of a candidate for independent Director to the Board and the resolution on the proposed remuneration of Directors, Supervisors and senior management for the year 2016 to the Board. Records of attendance of each member of the committee are set out in page 36 under "Composition of the Board and Board Practices" section of this annual report.

# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE

The Company established the Nomination Committee on 13 May 2011 and has stipulated written terms of reference for the Nomination Committee. The main duties of the Nomination Committee include (i) study the 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). During the year under review, the Nomination Committee held two meetings to review and approve the resolution on the nomination of a candidate for independent Director proposed to the Board and the resolution on confirming the structure, number of members and composition of the Board (including their skills, knowledge and experience) that fits the corporate strategy of the Company, and assessment on the independence of the independent non-executive Directors. Records of attendance of each member of the committee are set out in page 36 under "Composition of the Board and Board Practices" section of this annual report.

In 2013, the Nomination Committee reviewed and approved the resolution on the "Board diversity policy of Zhejiang Shibao" and the correspondingly revised "Rules of Procedures for the Nomination Committee under the Board of Zhejiang Shibao". The Nomination Committee shall select from candidates based on the diversity principle such as education background, professional experience, skills, knowledge and service tenure, including but not limited to, gender, age, cultural background and ethnicity.

## 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).

During the year under review, the Audit Committee held five meetings to review and approve the annual audit report for the year 2014, self-assessment report on internal control for the year 2014, and unaudited financial report, internal audit report and internal audit working plan for first quarter, first half and third quarter of 2015. Also, the Audit Committee reviewed and approved the resolution on the re-appointment of Pan-China Certified Public Accountants LLP as the auditors of the Company for the year 2015, and submitted to the Board for review. Records of attendance of each member of the committee are set out in page 36 under "Composition of the Board and Board Practices" section of this annual report.

The Company's annual audit report for the year ended 31 December 2015 has been reviewed by the Audit Committee.

## SUPERVISORY COMMITTEE

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

# CORPORATE GOVERNANCE REPORT

## REMUNERATION OF THE AUDITORS

For the year ended 31 December 2015, remuneration received by Pan-China Certified Public Accountants LLP, the auditors of the Company, in respect of their audit services and non-audit services are as follows:

	<b>RMB</b>
Statutory audit services	600,000
Non-statutory audit services	
– internal control	200,000
– other services	700,000
	<hr/>
Total	<u>1,500,000</u>

## COMPANY SECRETARY

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

## RESPONSIBILITY OF DIRECTORS AND AUDITORS ON THE ACCOUNTS

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

Statements of the Company’s auditors in respect of their reporting responsibilities on the Group’s financial statements are set out in the Auditors’ Report in page 42 in the annual report.

## SHAREHOLDERS’ RIGHTS

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

# CORPORATE GOVERNANCE REPORT

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

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

## SIGNIFICANT CHANGES IN ARTICLES OF ASSOCIATION

The Company approved the amendments to the Articles of Association regarding these matters: (i) Board composition changed from eleven members to nine members; (ii) when the Shareholders' general meeting considers matters that could materially affect the interest of minority investors by the general meeting, the votes by minority investors shall be counted separately; and (iii) the Board, independent Directors and Shareholders who meet the relevant requirements may solicit votes from Shareholders publicly, at the annual general meeting held on 30 June 2015.

## RELATIONSHIP WITH SHAREHOLDERS

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

## RELATIONSHIP WITH INVESTORS

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

# AUDITORS' REPORT



Pan-China Audit (2016) No. 6817

## TO THE SHAREHOLDERS OF ZHEJIANG SHIBAO COMPANY LIMITED

We have audited the accompanying financial statements of Zhejiang Shibao Company Limited (hereinafter "Zhejiang Shibao Company"), which comprise the consolidated and parent company balance sheet as at 31 December 2015, the consolidated and parent company income statements, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity for the year then ended, and the notes to the financial statements.

### I. Management's Responsibility for the Financial Statements

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

### II. Certified Public Accountants' Responsibility

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

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

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

### III. OPINION

In our opinion, the financial statements present fairly, in all material aspects, the consolidated and parent company's financial position of Zhejiang Shibao Company as at 31 December 2015 and the consolidated and parent company's financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Pan-China Certified Public Accountants LLP  
Hangzhou, the PRC

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

24 March 2016



# CONSOLIDATED BALANCE SHEET

31 December 2015 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(1)	Balance at the end of the period	Balance at the beginning of the period
<b>Assets</b>			
<b>Current assets</b>			
Cash on hand and at bank	1	503,377,298.34	760,413,906.65
Notes receivable	2	92,274,842.99	110,001,880.87
Accounts receivable	3	326,067,978.19	328,448,994.53
Prepayments	4	6,530,189.97	10,618,954.07
Other receivables	5	3,230,857.02	6,348,421.04
Inventories	6	252,400,451.28	202,149,703.92
Other current assets	7	8,711,198.50	8,139,857.40
Total current assets		<u>1,192,592,816.29</u>	<u>1,426,121,718.48</u>
<b>Non-current assets</b>			
Fixed assets	8	451,819,102.65	449,185,309.04
Construction in progress	9	43,970,877.69	37,830,098.68
Intangible assets	10	115,053,639.13	123,778,255.54
Goodwill	11	4,694,482.34	4,694,482.34
Deferred income tax assets	12	5,999,463.17	4,690,643.38
Other non-current assets	13	71,672,282.41	54,767,380.74
Total non-current assets		<u>693,209,847.39</u>	<u>674,946,169.72</u>
<b>Total assets</b>		<u><u>1,885,802,663.68</u></u>	<u><u>2,101,067,888.20</u></u>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Short-term loans	14	25,000,000.00	268,260,000.00
Notes payable	15	74,239,657.73	65,791,655.53
Accounts payable	16	233,827,116.38	237,195,243.19
Receipts in advance	17	6,044,129.53	4,886,192.92
Staff cost payable	18	14,757,240.75	13,657,975.74
Tax payable	19	7,039,167.52	6,053,251.21
Interest payable	20	991,364.84	1,538,256.74
Other payables	21	4,854,383.45	2,228,853.18
Non-current liabilities due within one year	22	8,800,000.00	8,800,000.00
Other current liabilities	23	15,528,531.26	12,473,903.33
Total current liabilities		<u>391,081,591.46</u>	<u>620,885,331.84</u>

# CONSOLIDATED BALANCE SHEET

31 December 2015 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(1)	Balance at the end of the period	Balance at the beginning of the period
<b>Non-current liabilities</b>			
Long-term borrowings	24	1,380,000.00	1,900,000.00
Deferred income tax liabilities	12	5,118,323.51	5,992,749.26
Deferred Income	25	25,761,023.76	30,178,729.37
Total non-current liabilities		32,259,347.27	38,071,478.63
Total liabilities		423,340,938.73	658,956,810.47
<b>Equity</b>			
Share capital	26	315,857,855.00	315,857,855.00
Capital reserve	27	660,012,081.76	660,012,081.76
Surplus reserve	28	125,531,891.62	121,377,588.47
Retained earnings	29	341,181,295.69	323,380,540.91
Equity attributable to equity holders of the parent		1,442,583,124.07	1,420,628,066.14
Minority interests		19,878,600.88	21,483,011.59
Total equity		1,462,461,724.95	1,442,111,077.73
<b>Total liabilities and equity</b>		<b>1,885,802,663.68</b>	<b>2,101,067,888.20</b>

The notes form an integral part of the financial statements.

The financial statements as set out from page 43 to page 51 have been signed by:

**Zhang Shi Quan**  
Legal representative

**Zhang Lan Jun**  
Chief Financial Officer

**Li Gen Mei**  
Head of Finance Section

# BALANCE SHEET OF THE PARENT COMPANY

31 December 2015 | (RMB Yuan) | (English translation for reference only)

Item	Note 12.(1)	Balance at the end of the period	Balance at the beginning of the period
<b>Assets</b>			
<b>Current assets:</b>			
Cash on hand and at bank		162,709,790.82	312,492,858.93
Notes receivable		400,000.00	1,657,287.33
Accounts receivable	1	72,434,226.02	49,337,894.17
Prepayments		1,999,909.79	4,006,976.33
Other receivables	2	307,295,344.70	271,488,372.56
Inventories		10,259,898.73	10,310,137.01
Other current assets		–	9,119.50
Total current assets		555,099,170.06	649,302,645.83
<b>Non-current assets:</b>			
Long-term accounts receivable		298,000,000.00	368,000,000.00
Long-term equity investments	3	182,159,214.87	182,159,214.87
Fixed assets		8,614,669.00	8,945,573.05
Construction in progress		7,546,724.20	5,903,783.88
Intangible assets		38,815,492.52	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		541,829,345.34	609,940,644.71
<b>Total Assets</b>		<b>1,096,928,515.40</b>	<b>1,259,243,290.54</b>
<b>Current liabilities:</b>			
Short-term loans		–	159,000,000.00
Notes payable		–	5,300,000.00
Accounts payable		9,220,770.87	7,212,191.94
Receipts in advance		1,500.00	1,500.00
Staff cost payable		933,018.06	969,217.42
Tax payable		1,883,452.99	863,280.51
Interest payable		–	316,501.42
Other payables		3,155,558.04	8,718,583.23
Other current liabilities		820,800.00	800,000.00
Total current liabilities		16,015,099.96	183,181,274.52
<b>Non-current liabilities:</b>			
Total non-current liabilities		–	–
Total liabilities		16,015,099.96	183,181,274.52
<b>Shareholders' Equity:</b>			
Share capital		315,857,855.00	315,857,855.00
Capital reserve		661,553,840.72	661,553,840.72
Surplus reserve		65,161,280.41	61,517,561.92
Retained earnings		38,340,439.31	37,132,758.38
Total Shareholders' Equity		1,080,913,415.44	1,076,062,016.02
<b>Total Liabilities and Shareholders' Equity</b>		<b>1,096,928,515.40</b>	<b>1,259,243,290.54</b>

# CONSOLIDATED INCOME STATEMENT

For the year 2015 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(2)	Current year	Last year
Revenue	1	837,719,325.84	811,241,906.13
Less: Operating costs	1	620,617,460.76	593,984,877.42
Business taxes and surcharges	2	4,781,339.02	4,414,843.67
Selling expenses	3	49,576,514.32	55,003,757.42
General and administrative expenses	4	112,288,632.34	98,093,231.08
Financial expenses	5	3,945,269.12	18,628,701.30
Assets impairment losses	6	2,417,427.63	1,692,279.77
Add: Investment gains	7	10,778,912.32	—
Operating profit		54,871,594.97	39,424,215.47
Add: Non-operating income	8	7,410,140.32	9,378,178.39
Including: Gain on disposal of non-current assets	8	201,806.20	100,581.75
Less: Non-operating expenses	9	2,409,878.33	6,644,502.88
Including: Loss on disposal of non-current assets	9	1,452,300.17	5,242,813.64
Total profit		59,871,856.96	42,157,890.98
Less: Income tax expenses	10	7,935,424.24	5,679,580.07
Net profit		51,936,432.72	36,478,310.91
Net profit attributable to equity holders of the parent		53,540,843.43	43,374,711.66
Minority interests		-1,604,410.71	-6,896,400.75
Earnings per share			
Basic earnings per share		0.17	0.16
Diluted earnings per share		0.17	0.16
Other comprehensive income		—	—
Total comprehensive income		51,936,432.72	36,478,310.91
Including:			
Total comprehensive income attributable to equity holders of the parent		53,540,843.43	43,374,711.66
Total comprehensive income attributable to minority shareholders		-1,604,410.71	-6,896,400.75

# INCOME STATEMENT OF THE PARENT COMPANY

For the year 2015 | (RMB Yuan) | (English translation for reference only)

Item	Note 12.(2)	Current year	Last year
1. Revenue	1	48,566,187.86	40,557,404.65
Less: Operating costs	1	32,165,258.02	27,274,235.96
Business taxes and surcharges		358,169.93	251,375.51
Selling expenses		355,551.82	431,908.79
General and administrative expenses		14,998,534.21	8,109,369.86
Financial expenses		-1,055,572.16	2,468,071.56
Add: Investment gains	2	36,911,657.53	30,000,000.00
2. Operating profit		38,655,903.57	32,022,442.97
Add: Non-operating income		55,739.99	87,689.86
Including: Gain on disposal of non-current assets		9,338.00	-
Less: Non-operating expenses		69,302.15	115,454.81
Including: Loss on disposal of non-current assets		8,933.27	-
3. Total profit		38,642,341.41	31,994,678.02
Less: Income tax expenses		2,205,156.49	613,559.40
4. Net profit		36,437,184.92	31,381,118.62
5. Net other comprehensive income after tax		-	-
6. Total comprehensive income		36,437,184.92	31,381,118.62

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 2015 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(3)	Current year	Last year
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		534,656,843.45	444,437,344.61
Return of taxes and levies		6,455,540.22	693,734.02
Cash received relating to other operating activities	1	29,440,139.01	17,171,397.38
Sub-total of cash inflow		570,552,522.68	462,302,476.01
Cash paid for goods and services		250,238,650.10	156,529,371.83
Cash paid to and on behalf of employees		128,351,792.61	102,001,548.33
Payment of taxes and levies		41,469,544.61	41,330,237.10
Cash paid relating to other operating activities	2	74,732,045.23	73,715,735.95
Sub-total of cash outflow		494,792,032.55	373,576,893.21
Net cash flow from operating activities		75,760,490.13	88,725,582.80
2. Cash flows from investing activities:			
Cash received for investments		910,000,000.00	10,467,600.00
Cash received from investment gains		10,778,912.32	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		3,718,137.67	6,358,074.79
Cash received relating to other investing activities	3	-	17,954,700.00
Sub-total of cash inflow		924,497,049.99	34,780,374.79
Cash paid to acquire fixed assets, intangible assets and other long-term assets		61,986,475.45	78,060,448.88
Cash paid for investments		910,000,000.00	5,000,000.00
Cash paid relating to other investing activities	4	2,300,000.00	620,000.00
Sub-total of cash outflow		974,286,475.45	83,680,448.88
Net cash flow from investing activities		-49,789,425.46	-48,900,074.09
3. Cash flows from financing activities:			
Cash received from investments		-	660,046,164.00
Cash received from borrowings		165,000,000.00	344,860,000.00
Sub-total of cash inflow		165,000,000.00	1,004,906,164.00
Cash paid for debt repayments		408,780,000.00	316,530,400.00
Cash paid for distribution of dividends, profit or interest expenses		38,328,686.23	39,910,067.21
Including: dividends and profit to minority interests by subsidiaries		-	750,000.00
Cash paid relating to other financing activities	5	280,000.00	1,603,286.96
Sub-total of cash outflow		447,388,686.23	358,043,754.17
Net cash flow from financing activities		-282,388,686.23	646,862,409.83
4. Effect of changes in foreign exchange rate on cash and cash equivalents		-391,466.61	-2,439,581.42
5. Net increase in cash and cash equivalents		-256,809,088.17	684,248,337.12
Add: opening balance of cash and cash equivalents		742,857,761.48	58,609,424.36
6. Closing balance of cash and cash equivalents		486,048,673.31	742,857,761.48



# STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

For the year 2015 | (RMB Yuan) | (English translation for reference only)

Item	Current year	Last year
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	21,135,512.19	34,520,347.78
Cash received relating to other operating activities	153,047,694.54	60,715,272.51
Sub-total of cash inflow	174,183,206.73	95,235,620.29
Cash paid for goods and services	24,895,858.39	15,544,933.55
Cash paid to and on behalf of employees	6,173,866.03	6,176,411.98
Payment of taxes and levies	4,917,038.61	2,957,455.83
Cash paid relating to other operating activities	194,293,912.68	102,271,818.68
Sub-total of cash outflow	230,280,675.71	126,950,620.04
Net cash flow from operating activities	-56,097,468.98	-31,714,999.75
2. Cash flows from investing activities:		
Cash received for investments	760,000,000.00	10,467,600.00
Cash received from investment gains	36,911,657.53	35,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	26,000.00	-
Cash received relating to other investing activities	70,000,000.00	8,869,000.00
Sub-total of cash inflow	866,937,657.53	54,336,600.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets	2,002,809.26	37,243,403.29
Cash paid for investments	760,000,000.00	5,000,000.00
Cash paid relating to other investing activities	2,300,000.00	368,620,000.00
Sub-total of cash outflow	764,302,809.26	410,863,403.29
Net cash flow from investing activities	102,634,848.27	-356,526,803.29
3. Cash flows from financing activities:		
Cash received from investments	-	660,046,164.00
Cash received from borrowings	140,000,000.00	179,000,000.00
Sub-total of cash inflow	140,000,000.00	839,046,164.00
Cash paid for debt repayments	299,000,000.00	119,000,000.00
Cash paid for distribution of dividends, profit or interest expenses	35,309,462.55	29,600,425.59
Cash paid relating to other financing activities	280,000.00	1,603,286.96
Sub-total of cash outflow	334,589,462.55	150,203,712.55
Net cash flow from financing activities	-194,589,462.55	688,842,451.45
4. Effect of changes in foreign exchange rate on cash and cash equivalents	-140,984.85	-58,746.94
5. Net increase in cash and cash equivalents	-148,193,068.11	300,541,901.47
Add: opening balance of cash and cash equivalents	310,902,858.93	10,360,957.46
6. Closing balance of cash and cash equivalents	162,709,790.82	310,902,858.93

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2015 | (RMB Yuan) | (English translation for reference only)

## Current year

Item	Current year					Total shareholders' equity
	Attributable to equity holders of the Parent				Minority interests	
	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	-	-	4,154,303.15	17,800,754.78	-1,604,410.71	20,350,647.22
(1) Total comprehensive income	-	-	-	53,540,843.43	-1,604,410.71	51,936,432.72
(2) Contribution by shareholders and decrease in capital	-	-	-	-	-	-
1. Ordinary shares contributed by shareholders	-	-	-	-	-	-
2. Other	-	-	-	-	-	-
(3) Appropriation of profits	-	-	4,154,303.15	-35,740,088.65	-	-31,585,785.50
1. Transfer to surplus reserve	-	-	4,154,303.15	-4,154,303.15	-	-
2. 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>660,012,081.76</u>	<u>125,531,891.62</u>	<u>341,181,295.69</u>	<u>19,878,600.88</u>	<u>1,462,461,724.95</u>

## Last year

Item	Last year					Total shareholders' equity
	Attributable to equity holders of the Parent				Minority interests	
	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	38,200,000.00	617,712,877.04	7,478,322.75	13,683,760.51	-10,396,400.75	666,678,559.55
(1) Total comprehensive income	-	-	-	43,374,711.66	-6,896,400.75	36,478,310.91
(2) Contribution by shareholders and decrease in capital	38,200,000.00	617,712,877.04	-	-	-2,750,000.00	653,162,877.04
1. Ordinary shares contributed by shareholders	38,200,000.00	619,962,877.04	-	-	-	658,162,877.04
2. Other	-	-2,250,000.00	-	-	-2,750,000.00	-5,000,000.00
(3) Appropriation of profits	-	-	7,478,322.75	-29,690,951.15	-750,000.00	-22,962,628.40
1. Transfer to surplus reserve	-	-	7,478,322.75	-7,478,322.75	-	-
2. Distribution to shareholders	-	-	-	-22,212,628.40	-750,000.00	-22,962,628.40
4. Balance at the end of year	<u>315,857,855.00</u>	<u>660,012,081.76</u>	<u>121,377,588.47</u>	<u>323,380,540.91</u>	<u>21,483,011.59</u>	<u>1,442,111,077.73</u>

# STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the year 2015 | (RMB Yuan) | (English translation for reference only)

## Current year

Item	Current year				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	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	-	-	3,643,718.49	1,207,680.93	4,851,399.42
(1) Total comprehensive income	-	-	-	36,437,184.92	36,437,184.92
(2) Appropriation of profits	-	-	3,643,718.49	-35,229,503.99	-31,585,785.50
1. Transfer to surplus reserve	-	-	3,643,718.49	-3,643,718.49	-
2. 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>65,161,280.41</u>	<u>38,340,439.31</u>	<u>1,080,913,415.44</u>

## Last year

Item	Last year				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	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	38,200,000.00	619,962,877.04	3,138,111.86	6,030,378.36	667,331,367.26
(1) Total comprehensive income	-	-	-	31,381,118.62	31,381,118.62
(2) Contribution by shareholders and decrease in capital	38,200,000.00	619,962,877.04	-	-	658,162,877.04
1. Ordinary shares contributed by shareholders	38,200,000.00	619,962,877.04	-	-	658,162,877.04
(3) Appropriation of profits	-	-	3,138,111.86	-25,350,740.26	-22,212,628.40
1. Transfer to surplus reserve	-	-	3,138,111.86	-3,138,111.86	-
2. Distribution to shareholders	-	-	-	-22,212,628.40	-22,212,628.40
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>37,132,758.38</u>	<u>1,076,062,016.02</u>

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

## 1. GENERAL

Zhejiang Shibao Company Limited (hereafter referred to as the “Company”) is a joint stock limited company approved by the document (ZHE SHANG SHI [2004] 37) (浙上市[2004]37號) issued by the Listing Affair Team (上市工作領導小組) of the People’s Government of Zhejiang Province. The Company was established by ways of promotion jointly by Zhejiang Shibao Holding Group Co., Ltd., Wu Wei Xu (吳偉旭), Wu Lang Yue (吳琅躍), Du Chun Mao (杜春茂) and Chen Wen Hong (陳文洪) on the basis of Zhejiang Shibao Steering Gear Co., Ltd.. The Company was registered and incorporated with Zhejiang Administration for Industry & Commerce on 30 April 2004. Its business license registration number is 330000400002163. The current share capital of the Company is RMB315,857,855 divided into a total of 315,857,855 shares (RMB1 for each share). Of which, shares with selling restrictions include 131,957,892 A shares and 0 H shares; shares without selling restrictions include 97,185,963 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 financial statements have been adopted for publication at the 9th meeting of the fifth session of the Board of the Company on 24 March 2016.

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

2015 Year | RMB Yuan | (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, and since 1 January 2014, the Company had early adopted “CASBE No. 41 Disclosure Of Interest In Other Entities” which are newly issued by the Ministry of Finance of the PRC in 2014, and “CASBE No. 37 Report Of Financial Instruments” which are revised by the Ministry of Finance of the PRC in 2014. The financial statements have truly and fully reflected the information of the Company, including the financial position, results of operations and cash flows.

### (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 ASBE 33 — Consolidated financial statements based on the financial statements of the parent and its subsidiaries and other relevant information.

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (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 ASBE 13 – Contingency; and 2) the initial recognised amount less accumulated amortisation determined according to ASBE 14 – Revenue.



# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (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

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

### **(9) Financial Instruments** *(continued)*

#### 4. Determination of fair value of primary 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

2015 Year | RMB Yuan | (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

2015 Year | RMB Yuan | (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 risks	According to the structure of the group of receivables and similar credit risk features (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience of losses and possible losses that are expected to incur based on the economic conditions of the debtors and the amount of the present value of the future cash flows from the receivables below the carrying amount shall be accounted for as provision for bad debts.

#### 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

2015 Year | RMB Yuan | (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

2015 Year | RMB Yuan | (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

2015 Year | RMB Yuan | (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

2015 Year | RMB Yuan | (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 and 2) borrowing costs have been incurred, and 3) activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.
- (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

2015 Year | RMB Yuan | (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

2015 Year | RMB Yuan | (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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

### (19) Employee Benefits *(continued)*

#### 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.

##### (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.

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

### (21) Revenue (continued)

#### 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.

### (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.



# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

### **(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.

### **(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

2015 Year | RMB Yuan | (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 mentioned in Note 3(18) of 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 payable business tax	5%
Property tax	On the property value less 30%, or on rents	1.2%, 12%
Urban maintenance and construction tax	Amount of payable turnover tax	7%, 5%
Education surcharge	Amount of payable turnover tax	3%
Local education surcharge	Amount of payable turnover tax	2%
Corporate income tax	Amount of taxable profit	15%, 25%

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

Details of income tax subjected:

Name of entity	Income tax rate
Hangzhou Shibao Auto Steering Gear Co., Ltd.	15%
Hangzhou New Shibao Electric Power Steering Co., Ltd.	15%
Beijing Autonics Technology Co., Ltd.	15%
Wuhu Sterling Steering System Co. Ltd.	15%
Others	25%

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (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 in 2014 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 of 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 in 2014 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 and approved by the document “Jing Ke Fa No.: [2014] 551” jointly issued by the Beijing Municipality Science and Technology Committee, Beijing Municipality Finance Bureau, State Tax Bureau Beijing Municipality Office and Beijing Municipality Local Tax Bureau, the controlling subsidiary, Beijing Autonics Technology Co., Ltd. was recognized as a high-tech enterprise during the period and obtained the High-tech Enterprise Certificate (No. GR201411000968) with a valid period from 2015 to 2017. It is subject to a corporate income tax rate of 15% during the period.
4. According to the “Notification regarding Public Announcement of 2014 1st batch filing of High-tech Enterprises of Anhui Province” issued by the Leading Group Office of Anhui Province High-tech Enterprises Recognition and Management (Wan Gao Qi Ren No. [2014] 19), the controlling subsidiary, Wuhu Sterling Steering System Co., Ltd. was recognized as a high-tech enterprise during 2014 and obtained the High-tech Enterprise Certificate (No. GR201434000449) with a valid period from 2014 to 2016. It is subject to a corporate income tax rate of 15% during the period.

## 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	109,919.43	89,871.21
Bank deposits	485,938,753.88	742,767,890.27
Other monetary funds	17,328,625.03	17,556,145.17
Total	503,377,298.34	760,413,906.65
Include: total monetary funds deposited overseas	17,798.44	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 RMB17,328,625.03 for the issuance of the bank acceptance bills.

Monetary funds deposited overseas at the end of the period amounted to HKD21,244.76, equivalent to RMB17,798.44.

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

#### 2. Notes receivable

##### (1) Breakdown

Type	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for bad debts	Book value	Carrying amount	Provision for bad debts	Book value
Bank acceptance bills	92,274,842.99		92,274,842.99	110,001,880.87		110,001,880.87
Total	<u>92,274,842.99</u>		<u>92,274,842.99</u>	<u>110,001,880.87</u>		<u>110,001,880.87</u>

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

Item	Pledged amount at the end of the period
Bank acceptance bills (Note)	30,654,323.45
Sub-total	<u>30,654,323.45</u>

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

##### (3) At the end of 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 derecognised at end of the period	Amounts not yet derecognised at end of the period
Bank acceptance bills	172,323,827.85	
Sub-total	<u>172,323,827.85</u>	

As the acceptor of the bank acceptance bill is a commercial banker which has high creditability, it is less likely that the banker fails to settle the acceptance bills when they become due. Therefore, the Company has derecognized the endorsed and discounted bank acceptance bills. However, if such acceptance bills are unsettled when they become due, the Company will bear the joint liability to the bill holders in accordance with the Law of Negotiable Instruments.

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 3. Accounts receivable

##### (1) Breakdown

##### 1) Breakdown by types

Types	Balance at the end of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	297,190,917.20	89.97	949,043.03	0.32	296,241,874.17
Individually insignificant but significant based on credit risk characteristics	5,602,392.40	1.70	3,317,357.83	59.21	2,285,034.57
Individually insignificant amount with bad debt provision on individual basis	27,541,069.45	8.33			27,541,069.45
<b>Total</b>	<b>330,334,379.05</b>	<b>100.00</b>	<b>4,266,400.86</b>	<b>1.29</b>	<b>326,067,978.19</b>

Types	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	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
<b>Total</b>	<b>330,832,572.68</b>	<b>100.00</b>	<b>2,383,578.15</b>	<b>0.72</b>	<b>328,448,994.53</b>

##### 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	Proportion (%)		Amount	Proportion (%)	
Within 1 year	317,909,089.92	96.24		320,244,690.89	96.79	
1-2 years	6,830,773.39	2.07	731,314.19	7,199,611.43	2.18	38,049.52
2-3 years	2,517,980.00	0.76	908,466.57	320,434.76	0.10	126,836.40
Over 3 years	3,076,535.74	0.93	2,626,620.10	3,067,835.60	0.93	2,218,692.23
<b>Subtotal</b>	<b>330,334,379.05</b>	<b>100.00</b>	<b>4,266,400.86</b>	<b>330,832,572.68</b>	<b>100.00</b>	<b>2,383,578.15</b>

The aging analysis of accounts receivable is based on the month in which the amount actually occurs. The amount which occurs first has priority in settlement with respect to turnover.

The Company's and its subsidiaries' trading terms with their customers generally offer a certain credit period. However, new customers are often required to make payment in advance. The credit period is generally 90 days, extending up to 180 days for major customers. Overdue balances are reviewed regularly by senior management.

# NOTES TO THE FINANCIAL STATEMENTS

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## 5. NOTES 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
Changsha Zhongtai Automobile Industrial Company Limited (長沙眾泰汽車工業有限公司)	1,149,043.03	949,043.03	82.59	Unrecovered amount expected
Receivables of sales payment from FAW-Car Co., Ltd. and others	296,041,874.17			Individual impairment test showed no risk was expected of balance recover
Sub-total	297,190,917.20	949,043.03	0.32	

##### 4) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	5,602,392.40	59.21	3,317,357.83
Sub-total	5,602,392.40	59.21	3,317,357.83

##### 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 Hangzhou Feiyue Automotive Component Company Limited (杭州飛越汽車零部件有限公司) and others	27,541,069.45			Individual impairment test showed no risk was expected of balance recover
Sub-total	27,541,069.45			

##### (2) Bad debts provision provided, recovered or reversed during the period

Bad debts provision provided during the period amounted to RMB1,989,351.17 and provisions for bad debt reversed correspondingly from recovered account receivables during the period amount to RMB56,528.46.

##### (3) Receivables from products actually sold during the period

Receivables from products actually sold during the period amounted to RMB50,000.00.

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

#### 3. Accounts receivable (continued)

##### (4) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
FAW-Car Co., Ltd. (一汽車轎車股份有限公司)	32,255,378.77	9.76	
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽車解放青島汽車有限公司)	31,227,173.23	9.45	
Chery Automobile Co., Ltd. (奇瑞汽車股份有限公司)	30,600,903.58	9.26	
Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司)	27,360,597.19	8.28	
Tianjin FAW Xiali Automobile Company Limited (天津一汽車夏利汽車股份有限公司)	22,673,445.02	6.86	
Sub-total	144,117,497.79	43.61	

#### 4. Prepayments

##### (1) Aging analysis

Aging	Balance at the end of the period				Balance at the beginning of the period			
	Carrying amount	Provision for bad debts (%)	Provision for bad debts	Book value	Carrying amount	Provision for bad debts (%)	Provision for bad debts	Book value
Within 1 year	6,064,822.30	92.87		6,064,822.30	10,247,788.26	96.51		10,247,788.26
1-2 years	408,992.96	6.26		408,992.96	227,748.30	2.14		227,748.30
2-3 years	56,374.71	0.87		56,374.71	143,417.51	1.35		143,417.51
Total	6,530,189.97	100.00		6,530,189.97	10,618,954.07	100.00		10,618,954.07

##### (2) The five largest prepayments

Name	Carrying amount	Percentage of the total prepayments carrying amount (%)
Laifu Iron&Steel Group Co., Ltd. Nanjing Sales Sub-company (萊蕪鋼鐵集團有限公司南京銷售分公司)	1,849,586.12	28.32
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)	529,743.02	8.11
Jilin Province Electricity Co.,Ltd. Siping Power Supply Company (吉林省電力 有限公司四平供電公司)	316,770.56	4.85
Shenzhen Haoyuan Technology Company Limited (深圳市好域安科技有限公司)	234,542.00	3.59
Sinopec Marketing Co., Ltd. Zhejiang and Hangzhou Petroleum branch (中國石化銷售有限公司浙江杭州石油分公司)	221,775.26	3.40
Sub-total	3,152,416.96	48.27



# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 5. Other receivables

##### (1) Breakdown

##### 1) Breakdown by types

Types	Balance at the end of the period				Book value
	Carrying amount Amount	(%)	Provision for bad debts Amount	(%)	
Individually significant amount with bad debt provision on individual basis	1,500,000.00	46.08			1,500,000.00
Individually insignificant but significant based on credit risk characteristics	774,068.26	23.78	24,237.64	3.13	749,830.62
Individually insignificant amount with bad debt provision on individual basis	981,026.40	30.14			981,026.40
<b>Total</b>	<b>3,255,094.66</b>	<b>100.00</b>	<b>24,237.64</b>	<b>0.74</b>	<b>3,230,857.02</b>

Types	Balance at the beginning of the period				Book value
	Carrying amount Amount	(%)	Provision for bad debts 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
<b>Total</b>	<b>6,372,658.68</b>	<b>100.00</b>	<b>24,237.64</b>	<b>0.38</b>	<b>6,348,421.04</b>

##### 2) Aging analysis of other receivables

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	981,026.40	30.14		3,392,127.79	53.23	
1-2 years	467,941.80	14.38		68,321.82	1.07	
2-3 years	56,569.89	1.74		1,351,324.21	21.21	
Over 3 years	1,749,556.57	53.74	24,237.64	1,560,884.86	24.49	24,237.64
<b>Sub-total</b>	<b>3,255,094.66</b>	<b>100.00</b>	<b>24,237.64</b>	<b>6,372,658.68</b>	<b>100.00</b>	<b>24,237.64</b>

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 5. 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
Jilin Tiedong Economic Development Zone Administrative Committee imprest and others (吉林鐵東經濟開發區管理委員會暫借款等款項)	1,500,000.00			Individual impairment test showed no risk was expected of balance recover
Sub-total	1,500,000.00			

##### 4) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	774,068.26	3.13	24,237.64
Sub-total	774,068.26	3.13	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	981,026.40			Individual impairment test showed no risk was expected of balance recover
Sub-total	981,026.40			

##### (2) Bad debts provision provided, recovered or reversed during the period

No bad debts provision provided during the period.

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 5. 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
Security deposits	<b>349,059.00</b>	270,559.00
Land transfer		2,094,374.16
Provisional borrowings	<b>1,873,644.32</b>	2,925,652.50
Imprest	<b>875,521.31</b>	747,356.80
Others	<b>156,870.03</b>	334,716.22
Sub-total	<b>3,255,094.66</b>	6,372,658.68

##### (4) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Aging	Percentage of other receivables carrying amount (%)	Provision for bad debts
Jilin Tiedong Economic Development Zone Administrative Committee (吉林鐵東經濟開發區管理委員會)	Provisional borrowings	1,500,000.00	over 3 years	46.08	
Cai Li Ming (蔡黎明)	Provisional borrowings	194,356.50	1-2 years	5.97	
Yiwu City Housing and Urban & County Construction Bureau (義烏市住房和城鄉建設局)	Security deposits	187,059.00	1-2 years	5.75	
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	Security deposits	150,000.00	within 1 year, over 3 years	4.61	
Siping City Dong Da Industry & Trading Co., Ltd. (四平市東達工貿有限公司)	Provisional borrowings	100,000.00	over 3 years	3.07	
Sub-total		2,131,415.50		65.48	

## 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	<b>79,202,768.05</b>		<b>79,202,768.05</b>	79,170,222.67		79,170,222.67
Work-in-progress	<b>34,987,905.38</b>		<b>34,987,905.38</b>	33,369,857.42		33,369,857.42
Finished goods	<b>136,988,335.84</b>	<b>484,604.92</b>	<b>136,503,730.92</b>	88,423,103.48	508,601.98	87,914,501.50
Low-value consumables	<b>1,706,046.93</b>		<b>1,706,046.93</b>	1,695,122.33		1,695,122.33
Total	<b>252,885,056.20</b>	<b>484,604.92</b>	<b>252,400,451.28</b>	202,658,305.90	508,601.98	202,149,703.92

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 6. Inventories (continued)

##### (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
			Reversal	Transfer (Note)	
Finished goods	508,601.98	484,604.92		508,601.98	484,604.92
Sub-total	508,601.98	484,604.92		508,601.98	484,604.92

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

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

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

#### 7. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax recoverable	6,443,938.19	7,308,026.91
Prepaid expenses	2,040,692.36	831,830.49
Prepaid corporate income tax	226,567.95	
Total	8,711,198.50	8,139,857.40

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 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	5,897,257.89	51,349,539.40	1,438,889.56	1,908,417.36	60,594,104.21
1) Purchase	1,320,770.12	12,705,670.61	592,366.29	680,657.44	15,299,464.46
2) Transfer from construction in progress	4,576,487.77	38,643,868.79	846,523.27	1,227,759.92	45,294,639.75
Decrease during the period		11,530,363.26	4,323,564.74	45,990.00	15,899,918.00
1) Disposal		11,530,363.26	4,323,564.74	45,990.00	15,899,918.00
Balance at the end of the period	196,195,280.17	520,333,402.31	20,868,448.39	17,922,669.28	755,319,800.15
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	5,757,439.94	45,109,275.07	2,714,157.18	1,569,578.77	55,150,450.96
1) Provision	5,757,439.94	45,109,275.07	2,714,157.18	1,569,578.77	55,150,450.96
Decrease during the period		9,069,325.06	3,977,042.80	43,690.50	13,090,058.36
1) Disposal		9,069,325.06	3,977,042.80	43,690.50	13,090,058.36
Balance at the end of the period	47,221,598.45	229,185,282.94	14,282,555.85	11,740,018.26	302,429,455.50
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	825,717.39	245,524.61			1,071,242.00
Book value					
Book value at the end of the period	148,147,964.33	290,902,594.76	6,585,892.54	6,182,651.02	451,819,102.65
Book value at the beginning of the period	148,008,146.38	287,123,368.63	8,207,682.10	5,846,111.93	449,185,309.04

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 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	17,337,307.74		17,337,307.74	5,758,557.10		5,758,557.10
The increase of production of power automotive steering gears project	8,000,469.00		8,000,469.00	19,530,203.77		19,530,203.77
Capacity expansion project of Hangzhou New Shibao	6,385,293.75		6,385,293.75	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	804,312.21		804,312.21	267,521.36		267,521.36
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	7,546,724.20		7,546,724.20	5,903,783.88		5,903,783.88
Other sundry projects	3,896,770.79		3,896,770.79	706,504.57		706,504.57
<b>Total</b>	<b>43,970,877.69</b>		<b>43,970,877.69</b>	<b>37,830,098.68</b>		<b>37,830,098.68</b>

##### (2) Movement during the period

Project name	Budget (RMB0,000)	Balance at the beginning of the period	Increase during the period	Transfer to		Percentage of invested amount to budget (%)
				fixed assets	Other decrease	
The precious casting and processing of automotive components project	23,536.41	5,758,557.10	13,849,544.82	2,270,794.18		20.88
The increase of production of power automotive steering gears project	18,123.47	19,530,203.77	22,510,137.47	34,039,872.24		66.36
Capacity expansion project of Hangzhou New Shibao		5,663,528.00	2,832,809.27	2,111,043.52		
The research and development, examination and inspection and trial production centre of automotive steering gear system project	4,500.00	267,521.36	2,621,833.55	2,085,042.70		22.32
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	36,067.10	5,903,783.88	1,642,940.32			2.09
Other sundry projects		706,504.57	7,978,153.33	4,787,887.11		
<b>Total</b>		<b>37,830,098.68</b>	<b>51,435,418.76</b>	<b>45,294,639.75</b>		

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 9. Construction in progress (continued)

##### (2) Movement during the period (continued)

Project name	Construction progress (%)	Accumulated amount of capitalized interests	Amount of capitalized interests during the period	Interest rate of capitalized interests during the period (%)	Source of fund	Balance at the end of the period
The precious casting and processing of automotive components project	20.00	3,029,442.84			Internal fund, Bank loans, Proceeds	17,337,307.74
The increase of production of power automotive steering gears project	70.00	2,957,831.01			Internal fund, Bank loans, Proceeds	8,000,469.00
Capacity expansion project of Hangzhou New Shibao					Internal fund	6,385,293.75
The research and development, examination and inspection and trial production centre of automotive steering gear system project	25.00				Internal fund, Proceeds	804,312.21
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	7.00				Internal fund, Proceeds	7,546,724.20
Other sundry projects					Internal fund	3,896,770.79
Total		<u>5,987,273.85</u>				<u>43,970,877.69</u>

#### 10. Intangible assets

##### (1) Breakdown

Item	Land use right	Patented technology	Non-patented technology	Management software	Total
<b>Cost</b>					
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				954,599.19	954,599.19
1) Purchase				954,599.19	954,599.19
Decrease during the period	10,000.00				10,000.00
1) Disposal	10,000.00				10,000.00
Balance at the end of the period	<u>105,194,617.43</u>	<u>1,281,666.67</u>	<u>48,696,372.12</u>	<u>3,891,183.34</u>	<u>159,063,839.56</u>
<b>Accumulated amortization</b>					
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	2,133,585.56	128,167.65	6,879,159.75	528,302.64	9,669,215.60
1) Provision	2,133,585.56	128,167.65	6,879,159.75	528,302.64	9,669,215.60
Decrease during the period					
1) Disposal					
Balance at the end of the period	<u>14,889,734.34</u>	<u>662,195.33</u>	<u>26,634,703.24</u>	<u>1,823,567.52</u>	<u>44,010,200.43</u>
<b>Book value</b>					
Book value at the end of the period	<u>90,304,883.09</u>	<u>619,471.34</u>	<u>22,061,668.88</u>	<u>2,067,615.82</u>	<u>115,053,639.13</u>
Book value at the beginning of the period	<u>92,448,468.65</u>	<u>747,638.99</u>	<u>28,940,828.63</u>	<u>1,641,319.27</u>	<u>123,778,255.54</u>



# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

#### 10. Intangible assets (continued)

##### (2) Analysis of carrying amount of the land use rights

Item	Balance at the end of the period	Balance at the beginning of the period
Outside Hong Kong including: interim lease	90,304,883.09	92,448,468.65
	90,304,883.09	92,448,468.65
Sub-total	90,304,883.09	92,448,468.65

#### 11. Goodwill

##### (1) Original carrying amount of goodwill

Name of the investee	Balance as at the beginning of the period	Arising from business combination during the period	Decreased during the period		Amounts at the end of the period
			Disposal	Others	
Wuhu Sterling Steering System Co., Ltd	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.

#### 12. Deferred income tax assets and deferred income tax liabilities

##### (1) Deferred income tax assets which are not offset

Item	Balance at the end of the period		Balance 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	4,266,400.86	849,874.60	2,383,578.15	386,834.62
Profits not realized from intra-group transactions	2,496,335.83	512,073.52	3,191,592.94	574,341.36
Deductible loss	13,874,588.36	3,468,647.09	12,080,158.98	3,020,039.74
Warranty expenses	6,918,388.47	1,168,867.96	4,729,517.73	709,427.66
Total	27,555,713.52	5,999,463.17	22,384,847.80	4,690,643.38

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (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)

##### (2) Deferred income tax liabilities which are not offset

Item	Balance at the end of the period		Balance at the beginning of the period	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Asset valuation surplus arising from business combination not under the common control (Note)	20,473,294.04	5,118,323.51	23,970,997.04	5,992,749.26
Total	20,473,294.04	5,118,323.51	23,970,997.04	5,992,749.26

(Note): There are taxable temporary differences arising from fair value adjustment on various identifiable assets and liabilities in acquiring Wuhu Sterling Steering System Co., Ltd through business combination not under the common control in stages during 2013. The balance as at the beginning of 2015 was RMB19,485,163.66. During the period, taxable temporary differences of the reversal of fair value amortization was RMB2,728,703.04. As at 31 December, 2015, the taxable temporary differences arising from such fair value adjustment amounted to RMB16,756,460.62.

In previous years, there were taxable temporary differences arising from fair value adjustment in various identifiable assets and liabilities in acquiring Beijing Autonics Technology Co., Ltd through business combination not under the common control. Its balance as at the beginning of 2015 was RMB4,485,833.38. During the period, taxable temporary differences of the reversal of fair value amortization was RMB768,999.96. As at 31 December, 2015, the taxable temporary differences arising from such fair value adjustment amounted to RMB3,716,833.42.

##### (3) Analysis of unrecognized deferred income tax assets

Item	Balance at the end of the period	Balance at the beginning of the period
Provision for decline in price of inventories	484,604.92	508,601.98
Deductible loss	65,007,150.18	62,340,923.78

##### (4) Deductible losses from unrecognized deferred income tax assets will be mature in the following years

Year	Balance at the end of the period	Balance at the beginning of the period	Note
2015		1,300,024.96	
2016	11,075,890.22	12,922,371.46	
2017	12,322,679.00	17,333,411.00	
2018	12,933,654.41	13,181,402.00	
2019	17,603,714.36	17,603,714.36	
2020	11,071,212.19		
Sub-total	65,007,150.18	62,340,923.78	

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

#### 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	65,052,282.41	48,147,380.74
Deposit to fulfill the contract	6,620,000.00	6,620,000.00
Total	<b>71,672,282.41</b>	<b>54,767,380.74</b>

#### 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	25,000,000.00	229,000,000.00
Pledged loans		5,460,000.00
Secured loans		8,800,000.00
Total	<b>25,000,000.00</b>	<b>268,260,000.00</b>

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

#### 15. Notes payable

##### (1) Breakdown

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	74,239,657.73	65,791,655.53
Total	<b>74,239,657.73</b>	<b>65,791,655.53</b>

##### (2) Other descriptions

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

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

#### 16. Accounts payable

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Operating purchase payable	216,433,367.24	227,460,702.08
Long-term assets purchase payable	17,393,749.14	9,734,541.11
Total	233,827,116.38	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	222,179,512.69	227,240,010.38
1-2 years	7,403,569.58	6,228,720.50
2-3 years	2,433,777.15	2,820,597.66
Over 3 years	1,810,256.96	905,914.65
Total	233,827,116.38	237,195,243.19

The aging analysis of accounts payable is based on the month in which the amount actually occurs. The amount which occurs first has priority in settlement with respect to turnover.

##### (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	6,044,129.53	4,886,192.92
Total	6,044,129.53	4,886,192.92

##### (2) Aging analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	4,870,200.70	3,303,735.46
1-2 years	1,173,928.83	1,582,457.46
Total	6,044,129.53	4,886,192.92

##### (3) As at the end of the period, no large receipts in advance aged over 1 year.

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (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

##### (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	119,278,022.33	118,411,183.08	13,492,860.01
Post-employment benefits – established withdrawal and deposit plan	1,031,954.98	10,259,609.39	10,027,183.63	1,264,380.74
Sub-total	13,657,975.74	129,537,631.72	128,438,366.71	14,757,240.75

##### (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	101,905,822.20	101,204,581.14	11,988,830.58
Staff welfare		8,492,136.45	8,490,113.95	2,022.50
Social insurance	854,595.44	6,455,676.91	6,233,559.60	1,076,712.75
Including: Medical insurance	741,717.64	5,372,912.76	5,183,839.71	930,790.69
Work injury insurance	35,481.18	531,153.88	518,026.38	48,608.68
Maternity insurance	77,396.62	551,610.27	531,693.51	97,313.38
Housing funds		704,188.49	704,188.49	
Labour union funds and employee education funds	483,835.80	1,720,198.28	1,778,739.90	425,294.18
Sub-total	12,626,020.76	119,278,022.33	118,411,183.08	13,492,860.01

##### (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	9,466,655.88	9,223,829.87	1,145,786.62
Unemployment insurance	128,994.37	792,953.51	803,353.76	118,594.12
Sub-total	1,031,954.98	10,259,609.39	10,027,183.63	1,264,380.74

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.

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

#### 19. Taxes payable

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax	3,218,266.81	1,368,796.19
Business tax	8,276.05	
Corporate income tax	2,653,558.49	3,697,094.82
Withhold of individual income tax	249,812.37	247,691.34
Urban maintenance and construction tax	343,246.63	295,372.88
Others	566,007.17	444,295.98
Total	<b>7,039,167.52</b>	<b>6,053,251.21</b>

#### 20. Interests payable

Item	Balance at the end of the period	Balance at the beginning of the period
Interests payable for short-term loans	34,931.51	533,423.41
Interest of long-term borrowings with periodic payments of interest and return of principal at maturity	956,433.33	1,004,833.33
Total	<b>991,364.84</b>	<b>1,538,256.74</b>

#### 21. Other payables

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Payable of temporary receipts	297,119.84	712,334.01
Deposits	3,443,758.77	600,050.00
Labour service company management fees	612,451.97	326,195.14
Others	501,052.87	590,274.03
Total	<b>4,854,383.45</b>	<b>2,228,853.18</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 22. 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

##### (2) Long-term loans due within one year

Item	Balance at the end of the period	Balance at the beginning of the period
Other loans	8,800,000.00 (Note)	8,800,000.00
Sub-total	8,800,000.00	8,800,000.00

(Note): These loans represented the capital loans from the Administrative Committee of the Jilin 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 Administrative Committee of the Jilin Tiedong Economic Development Zone in Siping has extended the repayment date to the end of 2016.

#### 23. Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Deferred income-assets related government grants (Note)	4,417,705.65	4,417,705.65
Accrued expenses	11,110,825.61	8,056,197.68
Total	15,528,531.26	12,473,903.33

(Note): For details of government grants to be amortized by and in relation to the assets of Jilin Shibao Machinery Manufacturing Co., Ltd., Hangzhou New Shibao Electric Power Steering Co., Ltd., Hangzhou Shibao Auto Steering Gear Co., Ltd., and Wuhu Sterling Steering System Co., Ltd. all are subsidiaries of the Company, during the period of use of relevant assets in the next year, please refer to the explanatory notes provided for deferred income.



# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

#### 24. 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	1,380,000.00 (Note)	1,900,000.00
Total	1,380,000.00	1,900,000.00

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

##### (2) Analysis of long-term loans by maturity date

Item	Balance at the end of the period	Balance at the beginning of the period
Current or within 1 year	300,000.00	
Over 1 year but within 2 years		570,000.00
Over 2 years but within 5 years	1,080,000.00	
Over 5 years		1,330,000.00
Total	1,380,000.00	1,900,000.00

#### 25. 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		4,417,705.61	25,761,023.76	
Total	30,178,729.37		4,417,705.61	25,761,023.76	

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 25. Deferred income (continued)

##### (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	22,219,166.68		3,190,000.00		19,029,166.68	Assets related
Subsidy funds for the precious casting and processing of automotive components project	4,638,957.84		102,960.32		4,535,997.52	Assets related
Special funds for establishment of a platform for public services provided in foreign trading	2,509,866.07		365,178.60		2,144,687.47	Assets related
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	4,441,120.00		649,920.00		3,791,200.00	Assets related
Heavy load hydraulic rack-and-pinion steering gear for high class market	526,257.76		77,013.36		449,244.40	Assets related
Subsidies for R&D equipment	261,066.67		32,633.33		228,433.34	Assets related
Sub-total	<u>34,596,435.02</u>		<u>4,417,705.61</u>		<u>30,178,729.41</u>	
Including: transferred to other current liabilities	4,417,705.65				4,417,705.65	

#### 26. Share capital

##### (1) Breakdown

Item	Balance at the beginning of the period	Increase/-decrease during the period					Sub-total	Balance at the end of the period
		Issuance of new shares	Bonus shares	Transfer from reserves	Others			
Shares with selling restrictions								
Shares held by domestic legal person	203,587,223.00				-79,546,805.00		124,040,418.00	
Shares held by domestic natural person	10,556,632.00				-2,639,158.00		7,917,474.00	
Shares without selling restrictions								
A Shares	15,000,000.00				82,185,963.00		97,185,963.00	
H Shares	86,714,000.00						86,714,000.00	
Total	<u>315,857,855.00</u>						<u>315,857,855.00</u>	

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 26. Share capital (continued)

##### (2) Other description

- 1) The release from the lock-up for the shares in issue prior to the initial public offering of A shares

On 2 November 2012, the A Shares of the Company were initially public offered and listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange.

Pursuant to the commitment made in the announcement on listing, Zhejiang Shibao Holding Group Co., Ltd., a controlling shareholder of the Company, guaranteed that it would not transfer the shares of the Company held by it nor entrust other parties to manage the same, nor the shares would be acquired by the Company within 36 months since the listing date of public offering of the A shares. Upon expiration of the aforesaid period, the Shares it would transfer each year shall not exceed 25% of the total number of Shares of the Company held by it. The number of Shares of the Company in issue prior to initial public offer of A shares held by Zhejiang Shibao Holding Group Co., Ltd., the controlling shareholder of the Company (the number of A shares released from the lock-up on 2 November 2015 was 41,346,805.00) accounts for 18.0440% of the total number for A shares of the Company, representing 13.0903% of the total share capital of the Company.

Pursuant to the commitment made in the announcement on listing, Zhang Shi Quan, a shareholder of the Company guaranteed that he would not transfer the shares of the Company nor entrust other parties to manage the same, nor the shares would be acquired by the Company within 36 months since the listing date of public offering of the A shares. In addition, as a director and the management of the Company, Zhang Shi Quan also guaranteed that upon the expiration of the aforesaid period, the number of Shares transferred by him each year during his term would not exceed 25% of the total number of the Shares of the Company held by him, and within 6 months after termination of his term, he would not transfer any Share of the Company held by him. The number of Shares in issue prior to the initial public offering of A shares of the Company held by Zhang Shi Quan, a shareholder of the Company (the number of A shares released from the lock-up on 2 November 2015 was 10,556,632, among which 2,639,158 shares were free float shares where 7,917,474 shares were lock-up shares held by senior management) accounts for 4.6070% of the total A shares of the Company, representing 3.3422% of the total share capital of the Company.

- 2) The release from the lock-up for the non-public issued A shares

As approved by the document no. [2014] 1101 issued by the China Securities Regulatory Committee, the Company issued 38,200,000 ordinary shares (A shares) subscribed in RMB by way of non-public offering to 6 specific investors on a price quoting basis. The shares were listed and traded from 26 December 2014.

Pursuant to the commitment made in the announcement on listing, the lock-up period of the additional shares subscribed by the 6 subscribers including SWS MU (Shanghai) Assets Management Co., Ltd, Baoying Fund Management Company Limited, Huaxia Life Insurance Co., Ltd, Essence Securities Co., Ltd., Tian An Property Insurance Co., Ltd. and AEGON-INDUSTRIAL Fund Management Co., Ltd. was 12 months since the listing date of such shares, being from 26 December 2014 to 25 December 2015. In the case of statutory holiday or non-business day, the trading day for such listed shares would extend to the first trading day following which.

The number of non-public issued A shares of the Company held by 6 aforesaid specific investors released from the lock-up on 28 December 2015 was 38,200,000 A shares, accounting for 16.6708% of the total number of the A shares of the Company and representing for 12.0940% of the total share capital of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 27. Capital reserve

##### (1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
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

#### 28. Surplus reserve

##### (1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory reserve funds	121,377,588.47	4,154,303.15		125,531,891.62
Total	121,377,588.47	4,154,303.15		125,531,891.62

##### (2) Other description

According to the Articles of Association, 10% of the profit of the Company and its subsidiary Wuhu Sterling Steering System Co., Ltd appropriated to the statutory surplus reserve totaled 3,988,308.20.

According to the Company law and Articles of Association of Hangzhou Shibao Auto Steering Gear Co., Ltd., a subsidiary of the Company, an amount of 165,994.95 was appropriated to the statutory surplus reserve. As of 31 December 2015, the accumulated amount appropriated to the statutory surplus reserve accounted for 50% of the fully paid capital.

#### 29. Retained earnings

Item	Balance for the current period	Balance for the corresponding period last year
Retained earnings at end of last year before adjustment	323,380,540.91	309,696,780.40
Total amount of adjustment (increase +, decrease -)		
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	53,540,843.43	43,374,711.66
Less: Transfer to statutory reserve funds	4,154,303.15	7,478,322.75
Dividends payable	31,585,785.50	22,212,628.40
Retained earnings at the end of the period	341,181,295.69	323,380,540.91

# NOTES TO THE FINANCIAL STATEMENTS

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## 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	830,146,184.07	616,527,267.36	804,192,522.85	589,571,721.73
Revenue from other business	7,573,141.77	4,090,193.40	7,049,383.28	4,413,155.69
Total	<b>837,719,325.84</b>	<b>620,617,460.76</b>	811,241,906.13	593,984,877.42

#### 2. Business taxes and surcharges

Item	Balance for the current period	Balance for the corresponding period last year
Business tax	54,042.94	40,842.07
Urban maintenance and construction tax	2,738,202.21	2,533,995.57
Education surcharge	1,196,756.63	1,104,144.39
Local education surcharge	792,337.24	735,861.64
Total	<b>4,781,339.02</b>	4,414,843.67

#### 3. Sales expenses

Item	Balance for the current period	Balance for the corresponding period last year
Transportation cost	17,887,196.70	18,605,623.20
Warranty fee	11,009,810.92	15,540,730.16
Wages, welfare and bonuses	8,104,810.10	6,723,629.04
Travelling expenses	3,555,489.77	4,320,966.19
Entertainment charge	3,987,017.96	2,630,339.56
Agent fee		2,320,023.52
Depreciation of fixed assets	463,909.84	520,152.04
Others	4,568,279.03	4,342,293.71
Total	<b>49,576,514.32</b>	55,003,757.42

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 4. General and administration expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	31,839,633.87	30,971,122.58
Research and development expenses	37,068,550.73	33,841,224.75
Office cost	8,241,269.86	6,943,463.24
Professional service fee	11,256,874.62	4,293,883.26
Depreciation of fixed assets	4,328,068.73	4,455,826.11
Amortization of intangible assets	6,766,725.24	6,555,037.44
Other taxation	4,558,620.53	5,042,900.25
Travelling expenses	3,515,685.02	2,221,116.57
Entertainment charge	2,323,463.52	2,088,576.36
Others	2,389,740.22	1,680,080.52
Total	112,288,632.34	98,093,231.08

The audit fee of 2015 was RMB600,000.00 (2014: RMB600,000.00).

#### 5. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	6,117,635.77	16,299,809.36
Including: Bank loans, interests of other loans fully repayable within 5 years	6,117,635.77	16,233,309.36
Bank loans, interests of other loans not fully repayable within 5 years		66,500.00
Interest income	-3,606,114.71	-585,349.44
Other	1,433,748.06	2,914,241.38
Including: Net exchange gains and losses	391,466.61	2,439,581.42
Total	3,945,269.12	18,628,701.30

#### 6. Assets impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debts losses	1,932,822.71	1,183,677.79
Provision for inventories losses	484,604.92	508,601.98
Total	2,417,427.63	1,692,279.77

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 7. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Gains from bank short-term products	10,778,912.32	
Total	10,778,912.32	

#### 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	201,806.20	100,581.75	201,806.20
Including: gains from disposal of fixed assets	201,806.20	100,581.75	201,806.20
Government grants	6,984,980.72	8,377,972.00	6,984,980.72
Others	223,353.40	899,624.64	172,353.40
Total	7,410,140.32	9,378,178.39	7,359,140.32

##### (2) Breakdown of government grants

Item	Balance for the current period	Balance for the corresponding period last year	Asset related/revenue related	Description
Special funds for adjustment and improvement project for traditional industry bases including the Northeast Area	3,190,000.00	3,023,333.32	Asset related	Note 1
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	649,920.00	433,280.00	Asset related	Note 2
Special funds for establishment of a platform for public services provided in foreign trading	191,428.60	31,904.76	Asset related	Note 3
Special funds for establishment of a platform for public services provided in foreign trading	173,750.00	173,750.00	Asset related	Note 4
Subsidy funds for the precious casting and processing of automotive components project	102,960.32	102,960.40	Asset related	Note 5
Heavy load hydraulic rack-and-pinion steering gear for high class market	77,013.36	51,342.24	Asset related	Note 6
Payment of subsidies of Provincial innovation policies	20,222.22	20,222.22	Asset related	Note 7
Subsidies for purchasing of equipment	12,411.11	12,411.11	Asset related	Note 8
Incentive funds in respect of land use tax of the Wuhu Economic and Technology Zone	815,000.00	740,100.00	Revenue related	Note 9
Incentive funds (subsidies) in respect of economic development policy of the Hangzhou Economic and Technology Zone	500,000.00		Revenue related	Note 10
Subsidiaries for projects such as Machine substitution for human labor of Hangzhou of Hangzhou industrial and technology organizing funds	380,000.00		Revenue related	Note 11
Tax reduction	310,012.64	561,678.14	Revenue related	Note 12
New/High Technology Enterprise Award granted by the Wuhu Economic and Technology Zone	200,000.00		Revenue related	Note 13



# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 8. Non-operating income (continued)

##### (2) Breakdown of government grants (continued)

Item	Balance for the current period	Balance for the corresponding period last year	Asset related/revenue related	Description
Subsidy funds of social insurance for entities promoting employment by Hangzhou Economic and Technology Development Area	183,617.44	173,675.68	Revenue related	Note 14
Subsidy funds of employment of Wuhu City	32,042.00	179,847.00	Revenue related	Note 15
Subsidies expenses for enterprises by Finance Bureau of Hangzhou Economic and Technological Development Area		729,700.00	Revenue related	Note 16
Award to Modelling Industrial Enterprises 2013 by Finance Bureau of Hangzhou Economic and Technological Development Area		604,300.00	Revenue related	Note 17
Subsidies for senior talented people in enterprises of development zone		500,000.00	Revenue related	Note 18
Special fund for technological innovation		300,000.00	Revenue related	Note 19
2012 Incentive funds for enterprises' investment in R&D by Finance Bureau of Hangzhou Economic and Technological Development Area		213,600.00	Revenue related	Note 20
Subsidies on Trademark by Industrial and Commercial Administrative Bureau of Anhui Province		180,000.00	Revenue related	Note 21
Incentive funds for enterprises technological innovation		100,000.00	Revenue related	Note 22
Others	146,603.03	245,867.13	Revenue related	
Sub-total	<b>6,984,980.72</b>	<b>8,377,972.00</b>		

(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) (發改辦產產業[2010] 2684號)

(Note 2) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou in 2013" (《關於下達2013年杭州市工業統籌資金重大創新等項目資助資金的通知》) (Hang Cai Qi (2013) No.1550) (杭財企[2013] 1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee (杭州市財政局、杭州市經濟和信息化委員)

(Note 3) "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)

(Note 4) "Notice of Granting of Special Funds for Public Services Provided in Foreign Trading 2012" (《關於下達浙江省2012年度外貿公共服務平臺建設專項資金的通知》) (Hang Cai Qi (2013) No. 898) (杭財企[2013] 898號) issued by Hangzhou Bureau of Finance and Hangzhou Foreign Trade and Economic Cooperation Bureau (杭州市財政局、杭州市對外貿易經濟合作局)

(Note 5) "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》)

(Note 6) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou in 2013" (《關於下達2013年杭州市工業統籌資金重大創新等項目資助資金的通知》) (Hang Cai Qi (2013) No.1550) (杭財企[2013] 1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee.

(Note 7) "Notice of Granting of Special Fund Program (Incentives and Subsidies) on Building Innovative Province of Anhui Province 2014" (《關於下達2014年安徽省創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 (安徽省科技廳)

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 8. Non-operating income (continued)

##### (2) Breakdown of government grants (continued)

- (Note 8) "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 (蕪湖市經信委技術科)
- (Note 9) "Notice of the Adjustment of 'Measures for Scope and Tax Standards in respect of Land Use Tax in Cities and Towns within Wuhu Economic and Technology Development Zone issued by Wuhu People's Government" (《蕪湖市人民政府關於調整經濟技術開發區城鎮土地使用稅等級範圍和稅額標準的通知》), "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》). "Guidelines on Incentive Scheme in respect of Land Use Tax in Jing Kai District in 2013" (《2013年經開區土地使用稅獎勵操作細則》)(Wu Zheng Mi 2013 No. 150) (蕪政秘[2013]150號文) Kai Ban (2013) no. 201 (開辦[2013] 201號)
- (Note 10) "Notice of Granting of Supporting Fund to the second batch of economic development strategy incentive in 2014" (關於下達2014年度第二批經濟發展政策獎勵(資助)資金的通知) (Hang Jing Kai Guan Fa (2015) No. 299) (杭經開管發[2015]299號)
- (Note 11) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Machinery Replacement Projects of Hangzhou in 2014" (《關於下達2014年杭州市工業統籌資金機器換入等項目資助資金的通知》)
- (Note 12) Reply notice of special tax treatment of Development Zone Branch of District Tax Bureau, Hangzhou
- (Note 13) "Implementation Opinions of an Enhancement in the Promotion of a Continuous and Healthy Economic Development" (《關於促進經濟持續健康較快發展的實施意見》) (Wu Zheng (2013) No. 33) (蕪政[2013] 33號) issued by the People's Government of Wuhu City
- (Note 14) "Notice of Implement Subsidy Tasks of social insurance for entities promoting employment 2014" (《關於開展2014年度穩定就業單位社會保險補貼工作的通知》) by Hangzhou Economic and Technological Development Area
- (Note 15) "Notice of Expanding the Scope of Fund Expense for Unemployment Insurance to Support the Enterprise Development issued by the Office of Wuhu People's Government" (蕪湖市人民政府辦公室關於我市擴大失業保險基金支出範圍扶持企業發展有關問題的通知) and "Announcement on Enterprise Reporting of stable employment subsidy and employment promotion subsidy and employment subsidy" (企業申報穩崗補貼與促進就業補貼和崗位補貼有關事項公告) (Wu Zheng Ban Mi 2015 No.65) (蕪政辦秘[2015]65號文)
- (Note 16) "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. 35) (杭經開管發[2014] 35號)/ (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 17) "Notice of Award to the second batch of Modelling Technical Innovation Enterprises 2013" (《關於對2013年度科技創新先進企業(第二批)予以表彰獎勵的通知》) (Hang Jing Kai Guan Fa (2014) No.250) (杭經開管發[2014] 250號) issued by Hangzhou Economic and Technological Development Area Administrative Committee
- (Note 18) "Notice of Granting of Subsidies for Talented People of Development Zone 2013" (《關於下達2013年度開發區各類人才資助的通知》) (Hang Jing Kai Guan Fa (2014) No.260) (杭經開管發[2014] 260號) issued by Hangzhou Economic and Technological Development Area Administrative Committee
- (Note 19) "Notice of Special Fund for Technological Innovation of Jilin Province 2014" (《關於下達2014年度吉林省科技創新專項資金的通知》) (Ji Cai Jiao Zhi (2014) No.549) (吉財教指[2014] 549號) issued by Department of Finance of Jilin Province (吉林省財政廳)
- (Note 20) "Notice of the publication of Enterprises being Awarded Incentive Funds for their Investment in R&D 2012" (《關於公佈2012年度企業研發投入資助名單的通知》) (Hang Jing Kai Gan Fa (2013) No.306) (杭經開管發[2013] 306號) issued by the Management Committee of Hangzhou Economic and Technological Development Zone (杭州經濟技術開發區管理委員會)
- (Note 21) "Notice of Recognition of Famous Trademark of Anhui Province 2013" (《關於認定2013年安徽省著名商標的通知》) (Gong Shang Shang Zi (2013) No.115) (工商商字[2013] 115號) issued by Industrial and Commercial Administrative Bureau of Anhui Province (安徽省工商行政管理局)
- (Note 22) "Notice of Publishing of Policies Related to Improvement of Enterprise Innovation by Wuhu Municipal Government" (《蕪湖市人民政府關於印發提升企業科技創新能力若干政策規定的通知》) (Wu Zheng (2013) No.75) (蕪政[2013] 75號) issued by Wuhu Municipal Government

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 9. Non-operating expenses

Item	Balance for the current period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Total losses from disposal of non-current assets	<b>1,452,300.17</b>	5,242,813.64	1,452,300.17
Including: losses from disposal of fixed assets	<b>1,452,300.17</b>	81,503.94	1,452,300.17
losses from disposal of intangible assets		5,161,309.70	
Local water conservancy construction fund	<b>908,400.38</b>	621,594.09	
Others	<b>49,177.78</b>	780,095.15	49,177.78
Total	<b>2,409,878.33</b>	6,644,502.88	1,501,477.95

#### 10. Income tax expenses

##### (1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Current income tax calculated according to tax law and relevant provisions	<b>10,118,669.78</b>	8,826,594.42
Adjustment of deferred income tax	<b>-2,183,245.54</b>	-3,147,014.35
Total	<b>7,935,424.24</b>	5,679,580.07

No provision for Hong Kong profits tax has been made (2014: Nil) as the Company and its subsidiaries had no profits generated in or arising from Hong Kong in 2015.

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

Item	Balance for the current period	Balance for the corresponding period last year
Total profit	<b>59,871,856.96</b>	42,157,890.98
Income tax expenses calculated at legal/ applicable tax rate	<b>14,967,964.24</b>	10,539,472.74
Effects of different applicable tax rates on subsidiaries	<b>-5,634,948.05</b>	-4,246,799.80
Effects of adjusting income tax of prior periods	<b>-74,388.41</b>	65,473.53
Effects of non-taxable income	<b>-823,240.08</b>	-3,858,873.73
Effects of including and excluding R&D expenses	<b>-1,640,738.68</b>	-1,568,273.96
Effects of non-deductible costs, expenses and losses	<b>444,933.05</b>	395,572.66
The effect of utilization of deductible loss arising from deferred income tax assets not previously recognized	<b>-1,060,735.71</b>	
The effect of deductible temporary difference arising from unrecognized deferred income tax assets or deductible loss of the subsidiary suffering losses during the period	<b>1,756,577.88</b>	4,353,008.63
Income tax expenses	<b>7,935,424.24</b>	5,679,580.07

# NOTES TO THE FINANCIAL STATEMENTS

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## 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	17,556,145.17	8,340,703.35
Receipt of government grants which are revenue related	2,257,262.47	3,967,089.81
Receipt of security deposit	3,522,200.00	
Collection of current accounts	1,216,152.50	3,490,000.00
Interest income	3,606,114.71	585,349.44
Others	1,282,264.16	788,254.78
Total	29,440,139.01	17,171,397.38

#### 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	32,067,775.67	37,055,198.66
Cash paid as general and administrative expenses	24,103,223.71	17,008,727.39
Payment of deposits including banker's acceptances	17,328,625.03	17,556,145.17
Others	1,232,420.82	2,095,664.73
Total	74,732,045.23	73,715,735.95

#### 3. Cash received in relation to investing activities

Item	Balance for the current period	Balance for the corresponding period last year
Recovery of performance deposit for construction		8,869,000.00
Receipt of government grants which are asset related		9,085,700.00
Total		17,954,700.00

#### 4. Cash paid in relation to investing activities

Item	Balance for the current period	Balance for the corresponding period last year
Payment of related expenditure for material assets restructuring	2,300,000.00	
Cash paid as performance deposit of contracts		620,000.00
Total	2,300,000.00	620,000.00

#### 5. 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	1,603,286.96
Total	280,000.00	1,603,286.96

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 6. 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	51,936,432.72	36,478,310.91
Add: Provision for impairment to assets	2,417,427.63	1,692,279.77
Depreciation of fixed assets, oil and gas assets and production	55,150,450.96	49,352,237.06
Amortization of intangible assets	9,669,215.60	9,778,821.91
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets	1,250,493.97	5,142,231.89
Losses on write-off of fixed assets		
Losses on changes of fair value		
Finance expenses	6,503,022.38	18,739,390.78
Investment gains	-10,778,912.32	
Increase in deferred income tax assets	-1,308,819.79	-35,582.32
Decrease in deferred income tax liabilities	-874,425.75	-3,111,432.03
Increase in inventories	-50,735,352.28	-21,751,843.17
Increase in operational receivables	-5,635,032.42	-96,798,988.50
Increase in operational payables	18,165,989.43	89,240,156.50
Others		
Net cash flows from operating activities	75,760,490.13	88,725,582.80
2) Significant investment and financing activities not related to cash receipts and payments:		
Debt transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3) Net change in cash and cash equivalents:		
Cash at the end of the period	486,048,673.31	742,857,761.48
Less: Cash at the beginning of the period	742,857,761.48	58,609,424.36
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	-256,809,088.17	684,248,337.12

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

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

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

Item	Balance for the current period	Balance for the corresponding period last year
1) Cash	<b>486,048,673.31</b>	742,857,761.48
Including: Cash on hand	<b>109,919.43</b>	89,871.21
Bank deposit readily available	<b>485,938,753.88</b>	742,767,890.27
Other monetary fund readily available		
Central bank deposit readily available		
Interbank deposit		
Interbank offer		
2) Cash equivalents		
Including: Bond investment due in three months		
3) Closing balance of cash and cash equivalents	<b>486,048,673.31</b>	742,857,761.48

(Note): The transferred endorsed bank acceptance bill which do not involve in cash receipt and payment during the period amounted to 440,147,337.36, among which, bills payable amounted to 411,685,940.43 and the payment for the purchase of long-term assets such as fixed assets amounted to 28,461,396.93.

Closing balance of cash and cash equivalents in the statement of cash flows for the year 2015 was RMB486,048,673.31 and closing balance of cash on hand and at bank in the balance sheet as at 31 December 2015 was RMB503,377,298.34. The difference of RMB17,328,625.03 was other monetary funds unqualified as cash and cash equivalents and having been deducted from the closing cash balance of the statement of cash flows.

Closing balance of cash and cash equivalents in the statement of cash flows for the year 2014 was RMB742,857,761.48 and closing balance of cash on hand and at bank in the balance sheet as at 31 December 2014 was RMB760,413,906.65. The difference of RMB17,556,145.17 was other monetary funds unqualified as cash and cash equivalents and having been deducted from the closing cash balance of the statement of cash flows.

### (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	17,328,625.03	Security deposits
Bills receivable	30,654,323.45	Pledge
Trade receivables	2,595,000.00	Pledge
Fixed assets	6,678,083.75	Charge
Intangible assets	3,366,551.05	Charge
Total	<b>60,622,583.28</b>	

# NOTES TO THE FINANCIAL STATEMENTS

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

### (4) Others (continued)

#### 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			353,117.92
Including: US Dollar	6,246.52	6.4936	40,562.40
Euro	41,492.20	7.0952	294,395.46
HKD	21,244.65	0.83778	17,798.34
Japanese Yen	130.00	0.053875	7.00
Swiss Franc	55.41	6.4018	354.72
Trade receivables			14,580.99
Including: US Dollar	2,245.44	6.4936	14,580.99

#### 3. Interest expenses

Item	During the period	Corresponding period of the previous year
Interest expenses	<b>6,117,635.77</b>	16,977,293.96
Including: Bank loans, interests of other loans fully repayable within 5 years	<b>6,117,635.77</b>	16,910,793.96
Bank loans, interests of other loans not fully repayable within 5 years		66,500.00
Less: Capitalized interests		677,484.60
Finance cost – interest expenses	<b>6,117,635.77</b>	16,299,809.36

During 2015, there was no interest capitalization (2014: 6.03%-7.68%).



# NOTES TO THE FINANCIAL STATEMENTS

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## 6. OWNER'S EQUITY IN OTHER ENTITIES

### (1) Owner's equity in significant subsidiaries

#### 1. Particulars of significant 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

#### 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	-2,906,079.71		99,385.59
Beijing Autonics Technology Co., Ltd.	30.00	776,926.82		2,356,802.90
Wuhu Sterling Steering System Co., Ltd.	42.11	524,742.18		17,422,412.39

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

##### (1) Assets and liabilities

Name of subsidiary	As at the end of the period					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou New Shibao Electric Power Steering Co., Ltd.	92,662,906.95	57,589,236.70	150,252,143.65	148,141,349.44	1,779,508.90	149,920,858.34
Beijing Autonics Technology Co., Ltd.	37,937,233.18	42,689,240.35	80,626,473.53	71,841,255.53	929,208.36	72,770,463.89
Wuhu Sterling Steering System Co., Ltd.	112,805,152.16	61,169,214.26	173,974,366.42	128,215,876.36	4,384,915.16	132,600,791.52

Name of subsidiary	As at the beginning of the period					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total 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

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 3. Major financial information of significant non-wholly owned subsidiaries (continued)

##### (2) Profit/loss and cash flows

Name of subsidiary	Balance for the current period			Cash flows from operating activities
	Revenue	Net profit	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	77,992,602.07	-9,686,932.36	-9,686,932.36	557,641.18
Beijing Autonics Technology Co., Ltd.	33,214,018.04	2,589,756.06	2,589,756.06	4,237,677.94
Wuhu Sterling Steering System Co., Ltd.	118,864,181.95	1,246,122.48	1,246,122.48	20,776,416.01

Name of subsidiary	Balance for the corresponding period last year			Cash flows from operating activities
	Revenue	Net profit	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	47,602,244.51	-15,363,317.76	-15,363,317.76	-891,712.23
Beijing Autonics Technology Co., Ltd.	19,180,837.70	-721,781.51	-721,781.51	15,151,016.14
Wuhu Sterling Steering System Co., Ltd.	112,100,553.02	-4,210,302.77	-4,210,302.77	3,029,320.51

# NOTES TO THE FINANCIAL STATEMENTS

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## 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	<b>924,950,976.54</b>	1,205,213,203.09
Including: Cash on hand and at bank	<b>503,377,298.34</b>	760,413,906.65
Notes receivable	<b>92,274,842.99</b>	110,001,880.87
Accounts receivable	<b>326,067,978.19</b>	328,448,994.53
Other receivables	<b>3,230,857.02</b>	6,348,421.04
Financial liabilities	<b>363,849,763.15</b>	599,371,984.38
Including: Bank borrowings	<b>35,180,000.00</b>	278,960,000.00
Notes payable	<b>74,239,657.73</b>	65,791,655.53
Accounts payable	<b>233,827,116.38</b>	237,195,243.19
Employee benefits payable	<b>14,757,240.75</b>	13,657,975.74
Interests payable	<b>991,364.84</b>	1,538,256.74
Other payables	<b>4,854,383.45</b>	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 31 December 2015, the Group had specific concentration of credit risk as 43.52% (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

2015 Year | RMB Yuan | (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 aging 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	503,377,298.34				503,377,298.34
Notes receivable	92,274,842.99				92,274,842.99
Accounts receivable	317,909,089.92	6,099,459.20	1,609,513.43	449,915.64	326,067,978.19
Other receivables	3,230,857.02				3,230,857.02
<b>Total</b>	<b>916,792,088.27</b>	<b>6,099,459.20</b>	<b>1,609,513.43</b>	<b>449,915.64</b>	<b>924,950,976.54</b>

Item	Neither past due nor impaired	Balance at the beginning 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
<b>Total</b>	<b>1,129,597,052.08</b>	<b>74,523,587.39</b>	<b>1,092,563.62</b>		<b>1,205,213,203.09</b>

# NOTES TO THE FINANCIAL STATEMENTS

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## 7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (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.

#### 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	503,377,298.34	503,377,298.34	503,377,298.34		
Notes receivable	92,274,842.99	92,274,842.99	92,274,842.99		
Accounts receivable	326,067,978.19	326,067,978.19	326,067,978.19		
Other receivables	3,230,857.02	3,230,857.02	3,230,857.02		
Total	<u>924,950,976.54</u>	<u>924,950,976.54</u>	<u>924,950,976.54</u>		

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	<u>1,205,213,203.09</u>	<u>1,205,213,203.09</u>	<u>1,205,213,203.09</u>		

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

## 7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (3) Liquidity risk (continued)

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

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank borrowings	35,180,000.00	35,588,958.33	34,238,958.33		1,350,000.00
Notes payable	74,239,657.73	74,239,657.73	74,239,657.73		
Accounts payable	233,827,116.38	233,827,116.38	233,827,116.38		
Employee benefits payable	14,757,240.75	14,757,240.75	14,757,240.75		
Interest payable	991,364.84	991,364.84	991,364.84		
Other payables	4,854,383.45	4,854,383.45	4,854,383.45		
Total	<u>363,849,763.15</u>	<u>364,258,721.48</u>	<u>362,908,721.48</u>		<u>1,350,000.00</u>

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	<u>599,371,984.38</u>	<u>608,971,078.49</u>	<u>606,615,078.49</u>	<u>627,000.00</u>	<u>1,729,000.00</u>

### (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.

As at 31 December 2015, the bank borrowings of the Company with floating interest rates were RMB0.00 (31 December 2014: RMB20,000,000.00), and a reasonable and possible 50% base point change in interest rates, with all other variables held constant, will not have any significant impact on total profit and shareholders' equity of the Company.

#### 2. Foreign exchange risk

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

# NOTES TO THE FINANCIAL STATEMENTS

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## 7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (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 31 December 2015, the Company's gearing ratio was -44.57% (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	35,180,000.00	278,960,000.00
Less: Cash and cash equivalents	486,048,673.31	742,857,761.48
Net debt	-450,868,673.31	-463,897,761.48
Equity	1,462,461,724.95	1,442,111,077.73
Total capital	1,011,593,051.64	978,213,316.25
Gearing ratio	-44.57%	-47.42%

## 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### (1) Related parties

#### 1. Parent company

(1) Parent company

Name of parent company	Relationship	Corporate type	Place of registration	Corporate representative	Nature of business
Shibao Holding	The largest shareholder	Limited liability	Zhejiang Yiwu	Zhang Shi Zhong	Industrial investment

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

(Note): On 16 November 2015, Zhejiang Shibao Holding Group Co., Ltd. (hereinafter referred to as "Shibao Holding"), the controlling shareholder of the Company, pledged 20,000,000 shares of A Share out of the shares of the Company held by it (representing 6.33% of the total share capital of the Company), together with the entitlements of such shares (including bonus shares and converted shares) to Caitong Securities Co., Ltd. for the holder of 2015 exchangeable private bonds of Shibao Holding (the actual issue size amounted to 400,000,000) to exchange shares and to provide guarantee for the payment of principal and interests of the exchangeable bonds. The registration procedure for the above pledge of shares has been completed with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch and the term for pledge started from 16 November 2015 till the date when Shibao Holding completes the registration procedure for the release of pledge with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch.



# NOTES TO THE FINANCIAL STATEMENTS

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## 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

### (1) Related parties (continued)

#### 1. Parent company (continued)

##### (1) Parent company (continued)

On 1 February 2016, Shibao Holding, pledged 10,000,000 shares of A Share out of the shares of the Company held by it (representing 3.17% of the total share capital of the Company), together with the entitlements of such shares (including bonus shares and converted shares) to Caitong Securities Co., Ltd. for the holder of exchangeable private bonds of Shibao Holding (the "Exchangeable Bonds") to exchange shares and to provide additional guarantee for the payment of principal and interests of the exchangeable bonds. The registration procedure for the above pledge of shares has been completed with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch and the term for pledge started from 1 February 2016 till the date when Shibao Holding completes the registration procedure for the release of pledge with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch.

As at the date of the approval of this financial report, Shibao Holding holds 165,387,223 shares of A Share of the Company, and the number of pledged shares is 30,000,000 shares of A Share, representing 18.14% of shares of the Company held by it.

(2) 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 statements.

### (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	Remarks
Shibao Holding	2,500.00	2015.5.12	2016.2.4	No	Borrowings
Shibao Holding	4,029.00	2015.7.28 – 2015.12.23	2016.1.28 – 2016.6.23	No	Banker's acceptance

### (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 (Note)	10,280,000.00	17,109,600.00
	Hangzhou Shibao (Note)	4,885,519.25	5,324,022.04
	Jilin Shibao (Note)	1,800,000.00	2,500,000.00
	Hangzhou New Shibao (Note)	1,790,000.00	790,000.00
	Beijing Autonics (Note)	3,073,997.60	
Accounts payable	Hangzhou Shibao		27,500,000.00
Total		21,829,516.85	53,223,622.04

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

# NOTES TO THE FINANCIAL STATEMENTS

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## 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

#### 1. Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	2,999,485.38	2,404,292.52
Other key management	797,042.44	428,216.96
Total	3,796,527.82	2,832,509.48

#### 2. Independent non-executive Directors

Name	Balance for the current period	Balance for the corresponding period last year
Chau Kam Wing, Donald	84,553.10	127,275.12
Zhao Chun Zhi	20,000.00	30,000.00
Zhang Hong Zhi	30,000.00	30,000.00
Guo Kong Hui	65,000.12	25,000.05
Shum Shing Kei	53,031.30	
Li Zi Biao		12,500.00
Total	252,584.52	224,775.17

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

Name	Balance for the current period			Balance for the corresponding period last year		
	Salaries, bonus, allowances and subsidies	Social insurance	Total	Salaries, bonus, allowances and subsidies	Social insurance	Total
Zhang Shi Quan	582,999.99		582,999.99	400,000.00		400,000.00
Tang Hao Han	475,000.07	20,316.24	495,316.31	300,000.00	10,800.00	310,800.00
Zhang Bao Yi	483,000.04	20,316.24	503,316.28	492,000.04	18,480.00	510,480.04
Zhu Jie Rong	195,000.00		195,000.00	180,000.00		180,000.00
Zhang Lan Jun	385,166.64	20,316.24	405,482.88	322,000.12	16,507.71	338,507.83
Zhang Shi Zhong	208,490.00	12,625.20	221,115.20	96,000.00	15,002.40	111,002.40
Lou Run Zheng	12,500.00		12,500.00	30,000.00		30,000.00
Total	2,342,156.74	73,573.92	2,415,730.66	1,820,000.16	60,790.11	1,880,790.27

# NOTES TO THE FINANCIAL STATEMENTS

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## 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

#### 4. Supervisors

Name	Balance for the current period			Balance for the corresponding period last year		
	Salaries, bonus, allowances and subsidies	Social insurance	Total	Salaries, bonus, allowances and subsidies	Social insurance	Total
Wu Lang Ping	132,780.88	14,389.32	147,170.20	98,599.88	11,827.20	110,427.08
Du Min	96,000.00		96,000.00	104,700.00		104,700.00
Sheng Song Sheng	36,000.00		36,000.00	35,600.00		35,600.00
Yang Di Shan	26,000.00		26,000.00	24,000.00		24,000.00
Wang Kui Quan	16,000.00		16,000.00	24,000.00		24,000.00
Feng Yan	10,000.00		10,000.00			
Total	<u>316,780.88</u>	<u>14,389.32</u>	<u>331,170.20</u>	<u>286,899.88</u>	<u>11,827.20</u>	<u>298,727.08</u>

#### 5. Remuneration of five highest paid employees

During the year, the five highest paid employees include four (2014: four) Directors and details of their remunerations are set out in note 8.(4)3 to the financial statements. The remuneration of the remaining one (2014: one) employee who is not a director is as follows:

Item	Balance for the current period	Balance for the corresponding period last year
Salaries, allowances and non-cash benefits contribution to pension scheme	<u>400,482.87</u>	<u>557,085.80</u>
Total	<u>400,482.87</u>	<u>557,085.80</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	<u>79,128.98</u>	702,999.54
1-2 years		<u>170,349.89</u>
Total	<u>79,128.98</u>	<u>873,349.43</u>

# NOTES TO THE FINANCIAL STATEMENTS

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## 9. COMMITMENTS (continued)

### (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	<b>46,521,922.08</b>	20,881,027.21

- (3) During the current period, the controlling subsidiary Hangzhou Shibao issued letter of credit at Citic Bank Hangzhou Economic and Technological Development Area Branch. As at 31 December 2015, amount of unsettled letter of credit was EURO165,000 and AUD372,000.

## 10. EVENTS AFTER THE BALANCE SHEET DATE

### (1) Distribution of profit for 2015

Pursuant to the profit distribution proposal passed at the 9th meeting of the fifth session of the Board of the Company held on 24 March 2016, based on the total capital of 315,857,855 shares, a cash dividend of RMB1.00 (before tax) per 10 shares will be distributed to all shareholders. The aforementioned profit distribution proposal is subject to approval at an annual general meeting. Subject to the approval at an annual general meeting, liability will be accordingly recognized by the Company.

## 11. OTHER IMPORTANT MATTERS

### (1) Segmented Reporting

#### 1. Operating segment

As the operations and assets of both the Company and its subsidiaries are related to automotive steering system and components and are mainly located in Mainland China where 88.03% of the revenue was generated from domestic sales, no detailed segment information is required to be disclosed.

#### 2. Information about major customers

- (1) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company in 2015 is as follows:

Name of customer	Revenue	Proportion to total revenue of the Company(%)
FAW Car Co., Ltd. (一汽轎車股份有限公司)	130,372,074.13	15.56
SAZEH GOSTAR SAIPA CO.	100,207,800.00	11.96
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	91,180,285.27	10.88
DongFeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司)	85,367,208.29	10.19

- (2) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company in 2014 is as follows:

Name of customer	Revenue	Proportion to total revenue of the Company(%)
FAW Car Co., Ltd. (一汽轎車股份有限公司)	172,122,586.95	21.22
SAZEH GOSTAR SAIPA CO.	104,505,747.29	12.88
Anhui Jianghuai Automobile Co., Ltd. (安徽江淮汽車股份有限公司)	83,563,479.25	10.30

# NOTES TO THE FINANCIAL STATEMENTS

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## 11. OTHER IMPORTANT MATTERS (continued)

### (2) Other financial information

Item	Balance at the end of the period		Balance at the beginning of the period	
	Consolidated	The Parent	Consolidated	The Parent
Net current assets	801,511,224.83	539,084,070.10	805,236,386.64	466,121,371.31
Total assets less current liabilities	<u>1,494,721,072.22</u>	<u>1,080,913,415.44</u>	<u>1,480,182,556.36</u>	<u>1,076,062,016.02</u>

- (3) As at the date of the approval of this financial report, both the Company and its subsidiaries have not completed the procedures for the settlement of the Enterprise Income Tax for 2015.

## 12. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

### (1) Notes 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	72,434,226.02	99.60			72,434,226.02
Individually insignificant but significant based on credit risk characteristics	292,979.00	0.40	292,979.00	100.00	
Individually insignificant amount with bad debt provision on individual basis					
Total	<u>72,727,205.02</u>	<u>100.00</u>	<u>292,979.00</u>	<u>0.40</u>	<u>72,434,226.02</u>

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	
Individually insignificant amount with bad debt provision on individual basis					
Total	<u>49,630,873.17</u>	<u>100.00</u>	<u>292,979.00</u>	<u>0.59</u>	<u>49,337,894.17</u>

- 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	41,062,465.85	56.46		29,964,468.47	60.37	
1-2 years	31,371,760.17	43.14		19,373,425.70	39.04	
2-3 years						
Over 3 years	292,979.00	0.40	292,979.00	292,979.00	0.59	292,979.00
Sub-total	<u>72,727,205.02</u>	<u>100.00</u>	<u>292,979.00</u>	<u>49,630,873.17</u>	<u>100.00</u>	<u>292,979.00</u>

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

#### 1. Accounts receivable (continued)

##### (1) Breakdown (continued)

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Receivables of sales payment from Wuhu Sterling	72,434,226.02			Individual impairment test showed no risk was expected of balance recover
Sub-total	72,434,226.02			

- 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) Bad debts provision provided, recovered or reversed during the period

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

- (3) Receivables from products actually sold during the period

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 (蕪湖世特瑞轉向系統有限公司)	72,434,226.02	99.60	
Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd. (贛州江環汽車製造有限公司)	125,000.00	0.17	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	0.06	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	72,671,396.02	99.93	237,170.00

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

#### 2. Other receivables

##### (1) Breakdown

##### 1) Breakdown by types

Types	Balance at the end of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Individually significant amount with bad debt provision on individual basis	306,908,110.49	99.88			306,908,110.49
Individually insignificant but significant based on credit risk characteristics	251,563.42	0.08			251,563.42
Individually insignificant amount with bad debt provision on individual basis	135,670.79	0.04			135,670.79
<b>Total</b>	<b>307,295,344.70</b>	<b>100.00</b>			<b>307,295,344.70</b>

Types	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		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
<b>Total</b>	<b>271,488,372.56</b>	<b>100.00</b>			<b>271,488,372.56</b>

##### 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	Carrying amount		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	103,028,355.77	33.53		59,477,384.23	21.91	
1-2 years	54,823,000.60	17.84		53,966,483.91	19.88	
2-3 years	51,899,483.91	16.89		88,049,057.20	32.43	
Over 3 years	97,544,504.42	31.74		69,995,447.22	25.78	
<b>Sub-total</b>	<b>307,295,344.70</b>	<b>100.00</b>		<b>271,488,372.56</b>	<b>100.00</b>	



# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

### (1) Notes 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	306,908,110.49			Individual impairment test showed no risk was expected of balance recover
Sub-total	306,908,110.49			

##### 4) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	251,563.42		
Sub-total	251,563.42		

##### 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	135,670.79			Individual impairment test showed no risk was expected of balance recover
Sub-total	135,670.79			

##### (2) Bad debts provision made, recovered or reversed during the period

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

##### (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	306,908,110.49	270,921,411.29
Security deposits	197,059.00	197,059.00
Imprest	91,925.31	89,114.61
Others	98,249.90	280,787.66
Sub-total	307,295,344.70	271,488,372.56

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

#### 2. Other receivables (continued)

##### (4) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Age	Percentage to the balance of other receivables (%)	Provision for bad debts
Jilin Shibao	Current account	114,290,000.00	Within 1 year, 1-2 years, 2-3 years, Over 3 years	37.19	
Hangzhou New Shibao	Current account	76,628,266.80	Within 1 year, 2-3 years, Over 3 years	24.94	
Beijing Autonics	Current account	63,900,000.00	1-2 years, 2-3 years, Over 3 years	20.79	
Siping Steering	Current account	27,530,587.64	Within 1 year, 1-2 years, 2-3 years	8.96	
Hangzhou Shibao	Current account	24,559,256.05	Within 1 year	7.99	
Sub-total		306,908,110.49		99.87	

#### 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

##### (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		

##### (3) Investment in non-public listed companies and public listed companies

Item	Balance at the end of the period	Balance at the beginning of the period
Investment in non-public listed companies	182,159,214.87	182,159,214.87
Total	182,159,214.87	182,159,214.87

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

### (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	48,162,296.04	31,874,661.20	40,264,367.47	27,022,252.30
Revenue from other business	403,891.82	290,596.82	293,037.18	251,983.66
Total	<u>48,566,187.86</u>	<u>32,165,258.02</u>	<u>40,557,404.65</u>	<u>27,274,235.96</u>

#### 2. Investment gains

##### (1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from long-term equity investments under cost method of accounting	30,000,000.00	30,000,000.00
Gains from short-term bank wealth management products	6,911,657.53	
Total	<u>36,911,657.53</u>	<u>30,000,000.00</u>

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

Investee	Balance for the current period	Balance for the corresponding period last year	Reasons of increase/decrease as compared with the previous period
Hangzhou Shibao	30,000,000.00	25,000,000.00	Increase of dividends distribution of the investee
Siping Steering		5,000,000.00	
Sub-total	<u>30,000,000.00</u>	<u>30,000,000.00</u>	

##### (3) Description of investment gains from non-public listed companies and public listed companies

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from non-public listed companies	30,000,000.00	30,000,000.00
Sub-total	<u>30,000,000.00</u>	<u>30,000,000.00</u>

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

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

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

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

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

Supplemental information	Balance for the current period	Balance for the corresponding period last year
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	36,437,184.92	31,381,118.62
Add: Provision for impairment to assets		
Depreciation of fixed assets, oil and gas assets and production	1,288,949.75	1,162,956.18
Amortization of intangible assets	1,373,335.64	850,749.47
Amortization of long-term deferred expenses		
Gains on disposal of fixed assets, intangible assets and other long-term assets	-404.73	
Losses on write-off of fixed assets		
Losses on changes of fair value		
Finance expenses	3,463,707.42	7,558,964.13
Investment gains	-36,911,657.53	-30,000,000.00
Decrease in deferred income tax assets		
Increase in deferred income tax liabilities		
Decrease/(increase) in inventories	50,238.28	-3,253,622.32
Increase in operational receivables	-57,104,117.95	-55,603,480.55
Increase/(decrease) in operational payables	-4,694,704.78	16,188,314.72
Others		
Net cash flows from operating activities	<u>-56,097,468.98</u>	<u>-31,714,999.75</u>
2) Significant investment and financing activities not related to cash receipts and payments:		
Debt transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3) Net change in cash and cash equivalents:		
Cash at the end of the period	162,709,790.82	310,902,858.93
Less: Cash at the beginning of the period	310,902,858.93	10,360,957.46
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	<u>-148,193,068.11</u>	<u>300,541,901.47</u>

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

## 13. OTHER IMPORTANT MATTERS

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

Item	Amount	Description
Gain or loss on disposal of non-current assets, inclusive of provision for assets impairment write-off	-1,250,493.97	
Unauthorised approvals or items without duly approved documents, or occasional tax rebate or tax credits		
Government grants (except for government grants which are closely related to the Company's ordinary business and conforms with the national policies as well as standard amount and quantities or continuous government grants) recognized in gains or losses during the current period	6,984,980.72	
Fees for usage of funds received from non-financial enterprises recognized in profits and losses during the current period		
Investment costs paid by the investor in acquiring the subsidiaries, associates and joint ventures less the gain derived from the fair value of the investee's identifiable net assets at the time of investment		
Profit and loss from exchange of non-monetary assets		
Gains or losses from discretionary investment or asset management	10,778,912.32	
Impairment provisions for assets due to force majeure factors such as natural disasters		
Gains or losses from debt restructuring		
Corporate restructuring fees such as staff resettlement expenses, consolidation charges, etc.		
Gains or losses arising from transactions at unfair trading prices over their fair value		
Net gains or losses from the subsidiary formed by merging jointly controlled enterprises from the beginning of the reporting period to the date of merger attributable to the current period		
Gains or losses from contingency items unrelated to the normal business operations of the Company		
Change in gains or losses generated from held for trading financial assets, change in fair value generated from trading financial liabilities, investment gains from disposal of trading financial assets and trading financial liabilities and financial assets available for sale, other than effective hedging activities associated with normal business operations of the Company		
Reversal of impairment provisions for receivables subject to individual impairment test	56,528.46	
Gains or losses from external entrusted loans		
Gains or losses from changes in fair value of investment properties adopting fair value method for follow-up measurements		
Effect on gains and losses for the current period from one-off adjustment to gains and losses for the period according to the requirements of the tax and accounting laws and regulations		
Discretionary fee income received from discretionary operations		
Other non-operating income and expenses apart from those stated above	174,175.62	
Other gains and losses items conforming with the definition of non-recurring gains or losses		
Sub-total	16,744,103.15	
Less: Effect on enterprise income tax	2,954,841.55	
Effect on interest of minority shareholders (after tax)	865,738.67	
Items of non-recurring gains or losses attributable to equity holders of the parent	12,923,522.93	

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

## 13. OTHER IMPORTANT MATTERS (continued)

### (2) Return on net assets and earnings per share

#### 1. Details

Profit during the period	Weighted average return on net assets ratio %	Earnings per share (RMB/share)	
		Basic	Diluted
Net profit attributable to the holders of the Company's ordinary shares	3.73	0.17	0.17
Net profit, after deduction of non-recurring gain and loss, attributable to the holders of the Company's ordinary shares	2.83	0.13	0.13

#### 2. Calculation of weighted average return on net assets ratio

Item	No.	Balance for the current period
Net profit attributable to ordinary shareholders of the Company	A	53,540,843.43
Non-recurring gain and loss	B	12,923,522.93
Net profit net of non-recurring gain and loss attributable to ordinary shareholders of the Company	C=A-B	40,617,320.50
Net assets at the beginning of the period attributable to ordinary shareholders of the Company	D	1,420,628,066.14
Additions to net assets as a result of an issue of shares, conversion of loans, etc. attributable to ordinary shareholders of the Company	E	
Number of months from the month after increase in assets to end of reporting period	F	
Decrease in net assets net of repurchase, bonus, etc. attributable to ordinary shareholders of the Company	G	31,585,785.50
Number of months from the month after decrease in assets to end of reporting period	H	5
Others		
Reclassification adjustment for net profit of loss included in other consolidated income	I1	
Number of months from the month after change in assets to end of reporting period	J1	
Net gain (loss) from financial assets available for sale	I2	
Number of months from the month after change in assets to end of reporting period	J2	
Foreign currency translation differences for financial statements	I3	
Number of months from the month after change in assets to end of reporting period	J3	
Number of months during the reporting period	K	12
	$L=D+A/2+E \times F/K-G \times H/$	
Weighted average net assets	$K \pm I \times J/K$	1,434,237,743.90
Weighted average return on net assets ratio	$M=A/L$	3.73%
Weighted average return on net assets ratio, after deduction of non-recurring gain and loss	$N=C/L$	2.83%

# NOTES TO THE FINANCIAL STATEMENTS

2015 Year | RMB Yuan | (English Translation for Reference Only)

## 13. OTHER IMPORTANT MATTERS (continued)

### (2) Return on net assets and earnings per share (continued)

#### 3. Calculations of basic and diluted earnings per share

##### (1) *Calculations of basic earnings per share*

Item	Number	Year of 2015
Net profits attributable to the ordinary shareholders of the Company	A	53,540,843.43
Non-recurring profit/loss	B	12,923,522.93
Net profits after deducting non-recurring profit/loss attributable to the ordinary shareholders of the Company	C=A-B	40,617,320.50
Total number of shares at beginning	D	315,857,855.00
Increase in number of shares due to transfer from reserves to capital or distribution of scrip dividend	E	
Increase in number of shares due to issuance of new shares or convertibles	F	
Number of months calculated from the month after increase in shares to end of reporting period	G	
Decrease in number of shares due to repurchase	H	
Number of months calculated from the month after decrease in shares to end of reporting period	I	
Reduction in number of shares during the reporting period	J	
Number of months in the reporting period	K	12
Weighted average number of issued ordinary shares	$L=D+E+F \times G / K - H \times I / K - J$	315,857,855.00
Basic earnings per share	$M=A / L$	0.17
Basic earnings per share after deducting non-recurring profit/loss	$N=C / L$	0.13

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

### (3) Differences in preparation of financial statements between domestic and overseas accounting standards

The financial statements of the Company were prepared in accordance with Accounting Standards of Business Enterprises. In 2011, according to "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" issued by the Hong Kong Stock Exchange in December 2010, the Company decided to prepare the financial statements in accordance with Accounting Standards of Business Enterprises for information disclosure on the Hong Kong Stock Exchange.

Zhejiang Shibao Company Limited

24 March 2016



# GLOSSARY

“A Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued in China and listed on Shenzhen Stock Exchange, and are subscribed for and traded in RMB
“Anhui Changshan”	Anhui Changshan Auto Parts Manufacturing Co., Ltd., a subsidiary controlled by Shibao Holding
“Articles of Association”	Articles of association of the Company
“Audit Committee”	Audit committee of the Company
“BAIC Motor”	Beijing Automobile Group Company Limited
“Beijing Autonics”	Beijing Autonics Technology Co., Ltd., a subsidiary controlled by the Company
“Board”	Board of Directors of the Company
“Changan Mazda”	Changan Mazda Automobile Company Limited
“Chery Auto”	Chery Automobile Co., Ltd.
“China Accounting Standards for Business Enterprises or 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
“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
“Daimler Group”	Daimler AG, the largest commercial vehicle manufacturer, the second largest luxury car manufacture and the second largest truck manufacturer, consisting of four business divisions, i.e. Mercedes-Benz cars, Mercedes-Benz vans, Daimler heavy duty trucks and Daimler financial services
“Director(s)”	Director(s) of the Company
“Dongfeng Group”	Dongfeng Motor Company
“Erdos Sterling”	Erdos Sterling Steering System Co., Ltd., a wholly-owned subsidiary of Wuhu Sterling
“FAW Group”	FAW Group Corporation
“Geely Automobile”	Zhejiang Geely Holding Group Co., Ltd.
“Group”	The Company and its subsidiaries
“H Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued overseas and listed on Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars
“Hangzhou New Shibao”	Hangzhou New Shibao Electric Power Steering Co., Ltd., a subsidiary controlled by the Company

# GLOSSARY

“Hangzhou Shibao”	Hangzhou Shibao Auto Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“JAC”	Anhui Jianghuai Automobile Group Co., Ltd.
“Jilin Shibao”	Jilin Shibao Machinery Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company
“King Long Motor”	Xiamen King Long Motor Group Co., Ltd.
“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
“Reporting Period or This Period”	1 January 2015 to 31 December 2015
“RMB”	Renminbi
“Saipa Automotive”	Iran Saipa Automotive Group
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGMW”	Shanghai General Motor Wuling Automobile Company Limited (SGMW) is a joint venture of Shanghai Automobile Group Company, General Motor (China) Investment Company Limited and Liuzhou Wuling Automobile Company Limited
“Share(s) ”	A Share(s) and/or H Share(s)
“Shareholder(s)”	Shareholder(s) of the Company
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange of the PRC
“Shibao Holding or Ultimate Holding Company or Controlling Shareholder”	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
“Wuhu Sterling”	Wuhu Sterling Steering System Co., Ltd., a subsidiary controlled by the Company