



# 浙江世寶股份有限公司

ZHEJIANG SHIBAO COMPANY LIMITED\*

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

Stock Code: 1057

\* For identification purposes only



*Steering*  
The Future

Interim Report 2016

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| <b>Legal Name</b>                          | Zhejiang Shibao Company Limited*<br>浙江世寶股份有限公司   |
| <b>Board of Directors</b>                  | <b>Executive Directors</b><br>Mr. Zhang Shi Quan (張世權) ( <i>Chairman and General Manager</i> )<br>Mr. Zhang Bao Yi (張寶義) ( <i>Vice Chairman and Deputy General Manager</i> )<br>Mr. Tang Hao Han (湯浩瀚) ( <i>Vice Chairman and Deputy General Manager</i> )<br>Ms. Zhang Lan Jun (張蘭君) ( <i>Finance Director</i> )<br><br><b>Non-executive Directors</b><br>Mr. Zhang Shi Zhong (張世忠)<br>Mr. Zhu Jie Rong (朱頡榕)<br><br><b>Independent Non-executive Directors</b><br>Mr. Zhang Hong Zhi (張洪智)<br>Mr. Guo Kong Hui (郭孔輝)<br>Mr. Shum Shing Kei (沈成基) |
| <b>Supervisors</b>                         | Mr. Du Min (杜敏)<br>Mr. Yang Di Shan (楊迪山)<br>Mr. Wu Lang Ping (吳琅平)<br>Mr. Shen Song Sheng (沈松生)<br>Ms. Feng Yan (馮燕)  |
| <b>Senior Management</b>                   | Mr. Yu Zhong Chao (虞忠潮)<br>Ms. Liu Xiao Ping (劉曉平)   |
| <b>Audit Committee</b>                     | Mr. Shum Shing Kei (沈成基) ( <i>Chairman</i> )<br>Mr. Zhang Shi Zhong (張世忠)<br>Mr. Zhang Hong Zhi (張洪智)  |
| <b>Remuneration Committee</b>              | Mr. Shum Shing Kei (沈成基) ( <i>Chairman</i> )<br>Mr. Zhang Shi Zhong (張世忠)<br>Mr. Zhang Hong Zhi (張洪智)  |
| <b>Nomination Committee</b>                | Mr. Zhang Hong Zhi (張洪智) ( <i>Chairman</i> )<br>Mr. Shum Shing Kei (沈成基)<br>Ms. Zhang Lan Jun (張蘭君)  |
| <b>Investment &amp; Strategy Committee</b> | Mr. Zhang Shi Quan (張世權) ( <i>Chairman</i> )<br>Mr. Zhang Bao Yi (張寶義)<br>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)<br>Ms. Huen Lai Chun (禰麗珍)   |
| <b>Registered Office</b>                               | No. 1, Shuanglin Road<br>Fotang Town<br>Yiwu<br>Zhejiang Province<br>China (Post code: 322002)   |
| <b>Principal Place of Business in Hong Kong</b>        | Room 1204<br>C C Wu Building<br>302-308 Hennessy Road<br>Wanchai<br>Hong Kong  |
| <b>Legal Advisers</b>                                  | <i>as to PRC law</i><br>King & Wood Mallesons Shanghai Office<br>17th Floor, One ICC<br>999 Middle Huaihai Road<br>Xuhui District, Shanghai<br>China |
| <b>Auditors</b>  | Pan-China Certified Public Accountants LLP<br>4th-10th Floor<br>Xinhu Commercial Tower<br>No. 128 Xixi Road<br>Hangzhou, China                       |
| <b>Hong Kong H Share Registrar and Transfer Office</b> | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716, 17th Floor<br>Hopewell Centre<br>183 Queen's Road East<br>Wanchai<br>Hong Kong |

## Contact Information

### Corporate communication/Investor relations

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

### Company secretary services

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

## Place of Listing

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

## Website

[www.zjshibao.com](http://www.zjshibao.com)

# KEY ACCOUNTING INFORMATION AND FINANCIAL INDICATORS

|  | <b>This reporting period<br/>RMB</b> | Corresponding<br>period of last year<br>RMB | <b>Change</b> |
|--|--------------------------------------|---|---------------|
| Revenue  | <b>531,577,028.72</b>                | 442,723,463.64                              | 20.07%        |
| Net profit attributable to shareholders of the listed company                                      | <b>38,867,423.38</b>                 | 36,109,760.10                               | 7.64%         |
| Net profit after non-recurring gains and losses attributable to shareholders of the listed company | <b>33,412,277.24</b>                 | 28,493,235.40                               | 17.26%        |
| Net cash flow from operating activities  | <b>2,150,169.85</b>                  | 26,207,604.08                               | -91.80%       |
| Basic earnings per share (RMB/Share)   | <b>0.1231</b>                        | 0.1143                                      | 7.70%         |
| Diluted earnings per share (RMB/Share)   | <b>0.1231</b>                        | 0.1143                                      | 7.70%         |
| Weighted average return on net assets (%)  | <b>2.66%</b>                         | 2.51%                                       | 0.15%         |

|   | <b>At the end of the reporting period<br/>RMB</b> | At the beginning of<br>the reporting period<br>RMB | <b>Change</b> |
|---|---|--|---------------|
| Total assets  | <b>1,965,932,414.68</b>                           | 1,885,802,663.68                                   | 4.25%         |
| Net assets attributable to shareholders of the listed company | <b>1,449,864,761.95</b>                           | 1,442,583,124.07                                   | 0.50%         |

# UNAUDITED INTERIM FINANCIAL STATEMENTS

The Board of the Company is pleased to announce the unaudited consolidated financial statements of the Company for the six months ended 30 June 2016, together with the comparative figures for the corresponding period in 2015. The accounting information contained in this interim report has not been audited but has been reviewed by the Audit Committee of the Company.

## CONSOLIDATED BALANCE SHEET

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

| Item  | Balance at the end of the period | Balance at the beginning of the period |
|---|----------------------------------|--|
| <b>Current Assets</b>                       |                                  |  |
| Cash on hand and at bank                    | 191,832,858.81                   | 503,377,298.34                         |
| Notes receivable                            | 155,035,076.48                   | 92,274,842.99                          |
| Accounts receivable                         | 378,633,551.42                   | 326,067,978.19                         |
| Prepayments                                 | 5,143,052.15                     | 6,530,189.97                           |
| Other receivable                            | 3,170,078.63                     | 3,230,857.02                           |
| Inventories                                 | 233,697,696.31                   | 252,400,451.28                         |
| Other current assets                        | 266,544,467.23                   | 8,711,198.50                           |
| Total current assets                        | 1,234,056,781.03                 | 1,192,592,816.29                       |
| <b>Non-current Assets</b>                   |                                  |  |
| Fixed assets                                | 452,068,309.45                   | 451,819,102.65                         |
| Construction in progress                    | 61,064,799.19                    | 43,970,877.69                          |
| Intangible assets                           | 111,306,189.23                   | 115,053,639.13                         |
| Goodwill                                    | 4,694,482.34                     | 4,694,482.34                           |
| Deferred tax assets                         | 5,401,711.40                     | 5,999,463.17                           |
| Other non-current assets                    | 97,340,142.04                    | 71,672,282.41                          |
| Total non-current assets                    | 731,875,633.65                   | 693,209,847.39                         |
| <b>Total Assets</b>                         | <b>1,965,932,414.68</b>          | <b>1,885,802,663.68</b>                |
| <b>Current Liabilities</b>                  |                                  |  |
| Short-term loans                            | 12,000,000.00                    | 25,000,000.00                          |
| Notes payable                               | 47,376,642.08                    | 74,239,657.73                          |
| Accounts payable                            | 301,786,726.81                   | 233,827,116.38                         |
| Advance from customers                      | 5,837,766.54                     | 6,044,129.53                           |
| Employee benefits payable                   | 11,981,883.73                    | 14,757,240.75                          |
| Taxes payable                               | 8,310,973.48                     | 7,039,167.52                           |
| Interests payable                           | 967,308.34                       | 991,364.84                             |
| Dividend payable                            | 31,585,785.50                    | –                                      |
| Other payable                               | 4,439,554.16                     | 4,854,383.45                           |
| Non-current liabilities due within one year | 8,800,000.00                     | 8,800,000.00                           |
| Other current liabilities                   | 18,675,481.72                    | 15,528,531.26                          |
| Total current liabilities                   | 451,762,122.36                   | 391,081,591.46                         |
| <b>Non-current Liabilities</b>              |                                  |  |
| Long-term borrowings                        | 1,380,000.00                     | 1,380,000.00                           |
| Deferred income                             | 36,951,416.25                    | 25,761,023.76                          |
| Deferred tax liabilities                    | 4,681,110.63                     | 5,118,323.51                           |
| Total non-current liabilities               | 43,012,526.88                    | 32,259,347.27                          |
| Total Liabilities                           | 494,774,649.24                   | 423,340,938.73                         |

# CONSOLIDATED BALANCE SHEET

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

| Item  | Balance at the<br>end of<br>the period | Balance at the<br>beginning of<br>the period |
|---|--|--|
| <b>Shareholders' Equity</b>                         |  |  |
| Share capital                                       | 315,857,855.00                         | 315,857,855.00                               |
| Capital reserve                                     | 660,012,081.76                         | 660,012,081.76                               |
| Surplus reserve                                     | 125,531,891.62                         | 125,531,891.62                               |
| Retained earnings                                   | 348,462,933.57                         | 341,181,295.69                               |
|   | <hr/>                                  | <hr/>  |
| Equity attributable to equity holders of the parent | 1,449,864,761.95                       | 1,442,583,124.07                             |
|   | <hr/>                                  | <hr/>  |
| Minority interests                                  | 21,293,003.49                          | 19,878,600.88                                |
|   | <hr/>                                  | <hr/>  |
| Total Shareholders' Equity                          | 1,471,157,765.44                       | 1,462,461,724.95                             |
|   | <hr/>                                  | <hr/>  |
| <b>Total Liabilities and Shareholders' Equity</b>   | <b>1,965,932,414.68</b>                | <b>1,885,802,663.68</b>                      |
|   | <hr/> <hr/>                            | <hr/> <hr/>                                  |



# BALANCE SHEET OF THE PARENT COMPANY

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

| Item  | Balance at the end of the period | Balance at the beginning of the period |
|---|----------------------------------|--|
| <b>Current assets:</b>                            |                                  |  |
| Cash on hand and at bank                          | 21,275,980.51                    | 162,709,790.82                         |
| Notes receivable                                  | 3,000,000.00                     | 400,000.00                             |
| Accounts receivable                               | 68,375,300.73                    | 72,434,226.02                          |
| Prepayments                                       | 1,017,163.69                     | 1,999,909.79                           |
| Other receivables                                 | 352,000,807.20                   | 307,295,344.70                         |
| Inventories                                       | 9,235,424.04                     | 10,259,898.73                          |
| Other current assets                              | 138,024,248.95                   | –                                      |
| Total current assets                              | 592,928,925.12                   | 555,099,170.06                         |
| <b>Non-current assets:</b>                        |                                  |  |
| Long-term accounts receivable                     | 298,000,000.00                   | 298,000,000.00                         |
| Long-term equity investments                      | 182,159,214.87                   | 182,159,214.87                         |
| Fixed assets                                      | 8,100,912.96                     | 8,614,669.00                           |
| Construction in progress                          | 14,107,932.41                    | 7,546,724.20                           |
| Intangible assets                                 | 37,885,074.20                    | 38,815,492.52                          |
| Deferred income tax assets                        | 73,244.75                        | 73,244.75                              |
| Other non-current assets                          | 6,641,150.00                     | 6,620,000.00                           |
| Total non-current assets                          | 546,967,529.19                   | 541,829,345.34                         |
| <b>Total Assets</b>                               | <b>1,139,896,454.31</b>          | <b>1,096,928,515.40</b>                |
| <b>Current liabilities:</b>                       |                                  |  |
| Short-term loans                                  | 2,000,000.00                     | –                                      |
| Accounts payable                                  | 8,150,997.23                     | 9,220,770.87                           |
| Receipts in advance                               | 1,500.00                         | 1,500.00                               |
| Staff cost payable                                | 636,566.11                       | 933,018.06                             |
| Tax payable                                       | 1,042,337.74                     | 1,883,452.99                           |
| Dividend payable                                  | 31,585,785.50                    | –                                      |
| Other payables                                    | 2,969,388.71                     | 3,155,558.04                           |
| Other current liabilities                         | 400,000.00                       | 820,800.00                             |
| Total current liabilities                         | 46,786,575.29                    | 16,015,099.96                          |
| Total liabilities                                 | 46,786,575.29                    | 16,015,099.96                          |
| <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                    | 65,161,280.41                          |
| Retained earnings                                 | 50,536,902.89                    | 38,340,439.31                          |
| Total Shareholders' Equity                        | 1,093,109,879.02                 | 1,080,913,415.44                       |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>1,139,896,454.31</b>          | <b>1,096,928,515.40</b>                |

# CONSOLIDATED INCOME STATEMENT

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

| Item  | Amount for the current period | Amount for the last period |
|---|-------------------------------|----------------------------|
| Total revenue   | 531,577,028.72                | 442,723,463.64             |
| Total operating costs   | 488,975,092.04                | 410,607,537.37             |
| Including: Cost of sales  | 408,626,363.05                | 326,123,440.42             |
| Sales taxes and surcharges  | 1,841,506.05                  | 2,706,588.83               |
| Selling expenses  | 27,285,116.63                 | 24,904,879.91              |
| General and administrative expenses                                     | 51,478,217.09                 | 51,520,842.49              |
| Financial expenses  | -1,159,919.59                 | 4,933,494.25               |
| Assets impairment losses  | 903,808.81                    | 418,291.47                 |
| Add: Investment gains   | 2,656,495.90                  | 6,600,246.57               |
| Operating profit  | 45,258,432.58                 | 38,716,172.84              |
| Add: Non-operating income   | 4,116,405.78                  | 3,983,556.80               |
| Including: Gain on disposal of non-current assets                       | 357,307.67                    | 116,510.35                 |
| Less: Non-operating expenses  | 889,283.31                    | 1,562,720.72               |
| Including: Loss on disposal of non-current assets                       | 307,057.20                    | 1,208,726.88               |
| Total profit  | 48,485,555.05                 | 41,137,008.92              |
| Less: Income tax expenses   | 8,203,729.06                  | 6,863,903.42               |
| Net Profit  | 40,281,825.99                 | 34,273,105.50              |
| Net profit attributable to equity holders of the parent                 | 38,867,423.38                 | 36,109,760.10              |
| Minority interests  | 1,414,402.61                  | -1,836,654.60              |
| Total comprehensive income  | 40,281,825.99                 | 34,273,105.50              |
| Total comprehensive income attributable to equity holders of the parent | 38,867,423.38                 | 36,109,760.10              |
| Total comprehensive income attributable to minority shareholders        | 1,414,402.61                  | -1,836,654.60              |
| Earnings per share:   |                               |                            |
| Basic earnings per share  | 0.1231                        | 0.1143                     |
| Diluted earnings per share  | 0.1231                        | 0.1143                     |

# INCOME STATEMENT OF THE PARENT COMPANY

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

| Item  | Amount for<br>the current period | Amount for<br>the last period |
|---|----------------------------------|-------------------------------|
| Revenue   | 19,083,165.59                    | 22,279,464.07                 |
| Less: Operating costs                             | 12,485,542.91                    | 15,099,088.67                 |
| Business taxes and surcharges                     | 155,556.47                       | 100,585.92                    |
| Selling expenses                                  | 88,694.06                        | 200,495.09                    |
| General and administrative expenses               | 5,098,312.65                     | 7,500,937.39                  |
| Financial expenses                                | -2,448,315.68                    | 1,162,146.07                  |
| Add: Investment gains                             | 41,377,715.08                    | 34,981,917.80                 |
| Operating profit                                  | 45,081,090.26                    | 33,198,128.73                 |
| Add: Non-operating income                         | 2,430.00                         | 50,793.10                     |
| Including: Gain on disposal of non-current assets | -                                | 9,338.00                      |
| Less: Non-operating expenses                      | 16,868.91                        | 23,349.36                     |
| Total profit                                      | 45,066,651.35                    | 33,225,572.47                 |
| Less: Income tax expenses                         | 1,284,402.27                     | 860,585.64                    |
| Net profit  | 43,782,249.08                    | 32,364,986.83                 |
| Total comprehensive income                        | 43,782,249.08                    | 32,364,986.83                 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

| Item   | Amount for<br>the current period | Amount for<br>the last period |
|--|----------------------------------|-------------------------------|
| 1. Cash flows from operating activities:   |                                  |                               |
| Cash received from sale of goods and rendering of services                                       | 237,938,273.16                   | 312,136,925.16                |
| Return of taxes and levies   | –                                | 1,128,323.65                  |
| Cash received relating to other operating activities   | 20,522,967.54                    | 20,268,813.07                 |
| Sub-total of cash inflow   | 258,461,240.70                   | 333,534,061.88                |
| Cash paid for purchase of goods and acceptance of services                                       | 121,612,607.28                   | 179,183,657.73                |
| Cash paid to and on behalf of employees  | 71,412,937.07                    | 65,150,635.21                 |
| Payment of taxes and levies  | 23,254,860.32                    | 26,605,037.45                 |
| Cash paid relating to other operating activities   | 40,030,666.18                    | 36,387,127.41                 |
| Sub-total of cash outflow  | 256,311,070.85                   | 307,326,457.80                |
| Net cash flow from operating activities  | 2,150,169.85                     | 26,207,604.08                 |
| 2. Cash flows from investing activities:   |                                  |                               |
| Cash received from return of investments   | 429,000,000.00                   | 820,000,000.00                |
| Cash received from investment gains  | 2,656,495.90                     | 6,600,246.57                  |
| Net cash received from disposal of fixed assets, intangible assets<br>and other long-term assets | 1,945,894.58                     | 3,731,267.66                  |
| Cash received relating to other investing activities   | 13,890,000.00                    | –                             |
| Sub-total of cash inflow   | 447,492,390.48                   | 830,331,514.23                |
| Cash paid to acquire fixed assets, intangible assets and<br>other long-term assets               | 55,710,276.61                    | 27,998,293.99                 |
| Cash paid for investment   | 687,000,000.00                   | 1,030,000,000.00              |
| Sub-total of cash outflow  | 742,710,276.61                   | 1,057,998,293.99              |
| Net cash flow from investing activities  | -295,217,886.13                  | -227,666,779.76               |
| 3. Cash flows from financing activities:   |                                  |                               |
| Cash received from borrowings  | 200,000,000.00                   | 165,000,000.00                |
| Sub-total of cash inflow   | 200,000,000.00                   | 165,000,000.00                |
| Cash paid for debt repayments  | 213,000,000.00                   | 234,260,000.00                |
| Cash paid for distribution of dividends, profit or interest expenses                             | 462,833.31                       | 5,537,107.57                  |
| Cash paid relating to other financing activities   | –                                | 280,000.00                    |
| Sub-total of cash outflow  | 213,462,833.31                   | 240,077,107.57                |
| Net cash flow from financing activities  | -13,462,833.31                   | -75,077,107.57                |
| 4. Effect of changes in foreign exchange rate on cash and cash<br>equivalents                    | 7,702.05                         | -350,629.88                   |
| 5. Net increase in cash and cash equivalents   | -306,522,847.54                  | -276,886,913.13               |
| Add: Opening balance of cash and cash equivalents  | 486,048,673.31                   | 742,857,761.48                |
| 6. Closing balance of cash and cash equivalents  | 179,525,825.77                   | 465,970,848.35                |

# STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

| Item   | Amount for<br>the current period | Amount for<br>the last period |
|--|----------------------------------|-------------------------------|
| 1. Cash flows from operating activities:   |                                  |                               |
| Cash received from sale of goods and rendering of services                                       | 21,112,824.05                    | 9,198,979.98                  |
| Cash received relating to other operating activities   | 749,517.12                       | 3,024,400.55                  |
| Sub-total of cash inflow   | 21,862,341.17                    | 12,223,380.53                 |
| Cash paid for purchase of goods and acceptance of services                                       | 9,600,127.20                     | 14,646,751.12                 |
| Cash paid to and on behalf of employees  | 3,454,139.28                     | 2,771,288.80                  |
| Payment of taxes and levies  | 3,418,871.00                     | 2,727,329.41                  |
| Cash paid relating to other operating activities   | 47,253,024.56                    | 37,050,309.58                 |
| Sub-total of cash outflow  | 63,726,162.04                    | 57,195,678.91                 |
| Net cash flow from operating activities  | -41,863,820.87                   | -44,972,298.38                |
| 2. Cash flows from investing activities:   |                                  |                               |
| Cash received from return of investments   | 126,000,000.00                   | 500,000,000.00                |
| Cash received from investment gains  | 41,377,715.08                    | 34,981,917.80                 |
| Net cash received from disposal of fixed assets,<br>intangible assets and other long-term assets | -                                | 13,000.00                     |
| Sub-total of cash inflow   | 167,377,715.08                   | 534,994,917.80                |
| Cash paid to acquire fixed assets, intangible assets and<br>other long-term assets               | 4,675,942.74                     | 1,976,653.09                  |
| Cash paid for investments  | 264,000,000.00                   | 590,000,000.00                |
| Sub-total of cash outflow  | 268,675,942.74                   | 591,976,653.09                |
| Net cash flow from investing activities  | -101,298,227.66                  | -56,981,735.29                |
| 3. Cash flows from financing activities:   |                                  |                               |
| Cash received from borrowings  | 180,000,000.00                   | 140,000,000.00                |
| Cash received relating to other financing activities   | 70,000,000.00                    | -                             |
| Sub-total of cash inflow   | 250,000,000.00                   | 140,000,000.00                |
| Cash paid for debt repayments  | 178,000,000.00                   | 145,000,000.00                |
| Cash paid for distribution of dividends, profit or interest expenses                             | 272,116.65                       | 3,254,355.56                  |
| Cash paid relating to other financing activities   | 70,000,000.00                    | 280,000.00                    |
| Sub-total of cash outflow  | 248,272,116.65                   | 148,534,355.56                |
| Net cash flow from financing activities  | 1,727,883.35                     | -8,534,355.56                 |
| 4. Effect of changes in foreign exchange rate on cash and cash<br>equivalents                    | 354.87                           | -                             |
| 5. Net increase in cash and cash equivalents   | -141,433,810.31                  | -110,488,389.23               |
| Add: Opening balance of cash and cash equivalents  | 162,709,790.82                   | 310,902,858.93                |
| 6. Closing balance of cash and cash equivalents  | 21,275,980.51                    | 200,414,469.70                |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

| Item                                     | Current Period                               |                 |                 |                   |                    |                            |
|--|--|-----------------|-----------------|-------------------|--------------------|----------------------------|
|  | Attributable to equity holders of the parent |                 |                 |                   | Minority interests | Total shareholders' equity |
|  | Share capital                                | Capital reserve | Surplus reserve | Retained earnings |                    |                            |
| 1. Balance at the end of last year       | 315,857,855.00                               | 660,012,081.76  | 125,531,891.62  | 341,181,295.69    | 19,878,600.88      | 1,462,461,724.95           |
| 2. Balance at the beginning of year      | 315,857,855.00                               | 660,012,081.76  | 125,531,891.62  | 341,181,295.69    | 19,878,600.88      | 1,462,461,724.95           |
| 3. Increase/(decrease) during the period | -  | -               | -               | 7,281,637.88      | 1,414,402.61       | 8,696,040.49               |
| (1) Total comprehensive income           | -  | -               | -               | 38,867,423.38     | 1,414,402.61       | 40,281,825.99              |
| (2) Appropriation of profits             | -  | -               | -               | -31,585,785.50    | -                  | -31,585,785.50             |
| 1. Distribution to shareholders          | -  | -               | -               | -31,585,785.50    | -                  | -31,585,785.50             |
| 4. Balance at the end of the period      | 315,857,855.00                               | 660,012,081.76  | 125,531,891.62  | 348,462,933.57    | 21,293,003.49      | 1,471,157,765.44           |

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

# STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

| Item                                     | Current period        |                       |                      |                      | Total shareholders' equity |
|--|-----------------------|-----------------------|----------------------|----------------------|----------------------------|
|  | Share capital         | Capital reserve       | Surplus reserve      | Retained earnings    |                            |
| 1. Balance at the end of last year       | 315,857,855.00        | 661,553,840.72        | 65,161,280.41        | 38,340,439.31        | 1,080,913,415.44           |
| 2. Balance at the beginning of year      | 315,857,855.00        | 661,553,840.72        | 65,161,280.41        | 38,340,439.31        | 1,080,913,415.44           |
| 3. Increase/(decrease) during the period | -                     | -                     | -                    | 12,196,463.58        | 12,196,463.58              |
| (1) Total comprehensive income           | -                     | -                     | -                    | 43,782,249.08        | 43,782,249.08              |
| (2) Appropriation to profits             | -                     | -                     | -                    | -31,585,785.50       | -31,585,785.50             |
| 1. Distribution to shareholders          | -                     | -                     | -                    | -31,585,785.50       | -31,585,785.50             |
| 4. Balance at the end of year            | <u>315,857,855.00</u> | <u>661,553,840.72</u> | <u>65,161,280.41</u> | <u>50,536,902.89</u> | <u>1,093,109,879.02</u>    |

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 1. GENERAL

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

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

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

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

The Company has included 7 subsidiaries to the consolidated financial report, i.e. Hangzhou Shibao, Hangzhou New Shibao, Jilin Shibao, Siping Steering, Beijing Autonics, Wuhu Sterling and Erdos Sterling. Details refer to the financial statements (Note 6, Owner’s Equity In Other Entities).

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### (1) Basis of Preparation

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

### (2) Evaluation on ability of continuing operation

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



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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

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

### (2) Accounting Year

The accounting year is from 1 January to 31 December.

### (3) Operating Cycle

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

### (4) Functional Currency

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

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

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

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

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

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

### (6) Preparation Basis of Consolidated Financial Statements

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (7) Recognition Standards for Cash and Cash Equivalents

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

### (8) Foreign Currency Translation

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

### (9) Financial Instruments

#### 1. Classification of financial assets and financial liabilities

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

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

#### 3. Recognition and measurement of transfer of financial assets

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

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

#### 5. Assessment and provision for impairment on financial assets

- (1) The carrying amount of financial assets, other than financial assets at FVTPL, is assessed at the balance sheet date. Provision for impairment is made when there is objective evidence indicating that a financial asset is impaired.
- (2) For held-to-maturity investments, loans and receivables, the financial assets with separate significant amounts are differentiated for the purpose of single impairment test. For a financial asset that is not individually significant, the Company assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. In the event that the impairment test shows it is impaired, the impairment losses are recognized according to the difference between the carrying amount and the current value of future cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (10) Receivables

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

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

#### 2. Receivables for which collective bad debt provision is made according to credit risks characteristics

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (11) Inventories

#### 1. Classifications of inventories

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

#### 2. Cost of inventories transferred out

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

#### 3. Basis for determining the net realisable value of inventories

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

#### 4. Inventory system

The Company maintains a perpetual inventory system.

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

##### (1) *Low-value consumables*

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

##### (2) *Packaging materials*

Packaging materials are amortised in full when received for use.

### (12) Assets classified as held-for-sale

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

### (13) Long-Term Equity Investments

#### 1. Judgement on joint control and significant effects

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 2. Determination of investment cost

- (1) If formed through corporate merge under joint control, and the consideration for such combination is settled by cash payment, transfer of non-cash assets, debt obligation and issuance of equity securities by the merging party, the initial investment cost shall be the Company's share of the carrying amount of shareholders' equity of the party being combined showed in the consolidated financial statement of the equities under common control at the combination date. The difference between the initial investment cost of the long term equity investment and the carrying amount of paid combined consideration or the total par value of the shares issued shall be adjusted to capital reserve. If the balance of the capital reserve is insufficient, any excess is adjusted to retained profits.

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

For the trade which belongs to "package deal", the trades are handled as one trade which has obtained the right to control. For the trades which do not belong to "package deal", the initial investment cost shall be the share of the carrying amount shown on the consolidated financial statement of the equities under common control based on the net assets of the party being combined after combination at the combination date. The difference between the initial investment cost of long-term equity investment at the combination date and the carrying amount of the long-term equity investment before combination plus the carrying amount of new share consideration further obtained at the combination date shall be adjusted to capital reserve. If the balance of the capital reserve is insufficient, any excess is adjusted to retained profits.

- (2) For a long-term equity investment obtained through a business combination not involving entities under common control, the initial investment cost is the fair value of the consideration given for combination at the acquisition date. As for business combinations which involve enterprises not under common control and are carried out in stages, the accounting treatment of separate financial report and consolidated financial report shall be different:
- 1) In the separate financial report, the initial investment cost which is accounted for using the newly adopted cost method is the sum of carrying value of equity investment originally held and the addition of investment cost.
  - 2) To judge whether the transaction is a "package deal" for the purpose of the consolidated financial statements.

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



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 2. Determination of investment cost *(continued)*

- (3) A long-term equity investment acquired otherwise than through a business combination is initially recognised at the actual consideration paid if the investment is acquired by cash, or at the fair value of the equity securities issued if the investment is acquired by issuing equity securities. For those obtained through debt restructuring, the initial investment cost is recognized pursuant to CASBE No.12 – debt restructuring. For those obtained through exchange of non-monetary assets, the initial investment cost is recognized pursuant to CASBE No. 7 – exchange of non-monetary assets.

#### 3. Subsequent measurement and recognition

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

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

##### *(1) Separate financial statements*

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

##### *(2) Consolidated financial statements*

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (14) Fixed Assets

#### 1. Recognition of fixed assets

Fixed assets represent the tangible assets held for production or supply of goods or services, rental or for administrative purposes with useful lives over one accounting year, and is measured at the actual cost incurred till it is ready for intended use.

#### 2. Depreciation of fixed assets

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

### (15) Construction in Progress

- 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.
- 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

- Borrowing costs shall be capitalized when: 1) capital expenditures have been incurred; 2) borrowing costs have been incurred; and 3) activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.
- 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.
- The capitalization of borrowing costs ceases when the assets acquired, constructed or produced and qualified for capitalization are ready for their intended use or sale.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (16) Borrowing Costs (continued)

#### 3. Capitalization rate and amount of borrowing costs

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

### (17) Intangible Assets

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

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

3. Expenditures for internal research and development activities are expensed in the period as incurred. The expenses of internal research and development projects during the development stage are recognised as intangible assets when all of the following conditions are satisfied: (1) The completion of such intangible assets for use or sale is technically feasible; (2) The Company has the intention to use or sell the intangible assets upon completion; (3) The way in which the intangible assets bring economic benefits shows that there exists consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilisation; (4) The Company has sufficient technological, financial and other resources to complete the development of the intangible assets and the ability to make them available for use or sale; (5) The expenses attributable to such intangible assets can be measured reliably at the development stage.

### (18) Partial long-term asset impairment

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (19) Employee Benefits

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

2. Accounting treatment for short-term remuneration

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

3. Accounting treatment of post-employment benefits

Post-employment benefits are divided into the established withdrawal and deposit plan and the established benefit plan.

(1) The Company will recognize the amounts shall be deposited as the debts according to the established withdrawal and deposit plan and recognize them in the current profit or loss or relevant assets cost during the period when the employee provides services to the Company.

(2) The accounting treatment on the established benefit plan generally include the following procedures:

- 1) According to the projected unit credit method, the Company adopted unbiased and mutually agreed actuarial assumptions to estimate the relevant demographic variables and financial variables, calculate the obligations arising from the defined benefit plan and determine the period of relevant obligations belonging to. Meanwhile, the obligation arising from the defined benefit plan is discounted to determine the present value of such obligation under the defined benefit plan and the service cost for the current period;
- 2) Where there are assets in the defined benefit plan, the deficit or surplus from the present value of the defined benefit plan less the fair value of the defined benefit plan are recognised as a net debt or asset of a defined benefit plan. Where there are surplus in the defined benefit plan, the lower of the surplus of the defined benefit plan and the upper limit of the assets will be used to calculate the net assets of the defined benefit plan;
- 3) At the end of the period, the cost of employee benefits from the defined benefit plan will be recognised as the service cost, the net interest on the net assets or net debts from the defined benefit plan and the changes arising from the remeasurement of the net assets or net debts from the defined benefit plan. Of which, the service cost and the net interest on the net assets or net debts from the defined benefit plan will be recognised in the current profit or loss or relevant assets cost. The changes arising from the remeasurement of the net assets or net debts from the defined benefit plan will be recognised in other comprehensive income and shall not be reversed to the profit or less in subsequent accounting periods, but the amounts recognised in other comprehensive income can be transferred within the scope of interests.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 4. Accounting treatment of dismissal benefits

When provide dismissal benefits to the employee, the employee benefits debts arising from the recognition of dismissal will be recognised in the current profit or loss at the earlier of: (1) when the Company cannot unilaterally withdraw the dismissal benefits for the release of the labour relationship or the dismissal proposal; (2) when the Company recognised relevant costs or expenses associated with the reorganization of the payment of the dismissal benefits.

#### 5. Accounting treatment of other long-term benefits

Other long-term benefits provided by the Company to the employee, when meeting the determined conditions for withdrawal and deposit plan will conduct accounting treatment according to the determined withdrawal and deposit plan. Other long-term benefits other than this will conduct accounting treatment according to the determined benefit plan. In order to simplify the relevant accounting treatment, the generated staff remuneration is recognized as service cost and the total net amount of the components such as net interest amount of net liabilities or net assets in terms of other long-term employees' benefits and changes arising from re-measuring the net liabilities or net assets in terms of other long-term employees' benefits is recognized as profit or loss or relevant cost of asset for the current period.

### (20) Provision for liability

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

### (21) Revenue

#### 1. Recognition of revenue

##### (1) *Sales of goods*

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

##### (2) *Rendering of services*

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### **(21) Revenue** *(continued)*

#### 1. Recognition of revenue *(continued)*

##### *(3) Transfer of assets use rights*

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

#### 2. Methods of revenue recognition

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

### **(22) Government Grant**

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

The government subsidies obtained by the Company to purchase or construct long-term assets or otherwise are government subsidies pertinent to assets. Government grants relating to assets are recognised as a deferred income and allocated to current profit or loss over the expected useful life of the relevant asset by equal annual instalments. However, the government subsidies measured in nominal amount are directly recognised in the then profit or loss.

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

Other than government subsidies pertinent to assets, other government subsidies are government subsidies pertinent to income. Government grants relating to income and applied towards reimbursement of related costs or losses in subsequent periods are recognised as deferred income and taken to current profit or loss for the period in which the related costs are recognised. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognised in current profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### **(23) Deferred Tax Assets and Deferred Tax Liabilities**

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

### **(24) Operating leases**

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### **(25) Significant Accounting Judgments and Estimates**

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

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

#### 1. Recognition of deferred tax assets

As stated in Note 3(23) to the Financial Statements, deferred tax assets are recognised by the Company at the deductible temporary difference between the carrying amount of assets and liabilities and their tax bases (or, for an item not recognised as assets or liabilities but whose tax base can be determined under tax laws, the difference between the tax base and the carrying amount) based on the tax rate applicable to the period when the asset is recovered or the liability is settled. Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. At the balance sheet date, deferred tax assets unrecognised in prior periods are recognised to the extent that there is obvious evidence that it has become probable that sufficient taxable profit will be available in subsequent periods against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax asset can be utilized. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.

#### 2. Provision for doubtful debt

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



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (25) Significant Accounting Judgments and Estimates (continued)

#### 3. Provision for inventory obsolescence

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

#### 4. Long-term asset impairment

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

## 4. TAXATION

### (1) Major taxes and tax rates

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

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

Details of income tax subjected:

| Name of entity      | Income tax rate |
|---------------------|-----------------|
| Hangzhou Shibao     | 15%             |
| Hangzhou New Shibao | 15%             |
| Beijing Autonics    | 15%             |
| Wuhu Sterling       | 15%             |
| Others              | 25%             |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 4. TAXATION (continued)

### (2) Tax concession and approval documents

1. According to the letter regarding Zhejiang 2014 filing the First Innovative and High-tech Corporations issued by Leading Group Office of National High-tech Enterprises Recognition and Management (CTP No. [2015]29), the controlling subsidiary, Hangzhou Shibao was recognised as an Innovative and High-tech Corporation and obtained the Certificate of Innovative and High-tech Corporation (Certificate No. GR201433000685) with a valid period from 2014 to 2016. It is subject 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 Leading Group Office of National High-tech Enterprises Recognition and Management (CTP No. [2015]29), the controlling subsidiary, Hangzhou New Shibao was recognised as an Innovative and High-tech Corporation and obtained the Certificate of Innovative and High-tech Corporation (Certificate No. GR201433000159) with a valid period from 2014 to 2016. It is subject 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 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 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   | 150,301.65                       | 109,919.43                             |
| Bank deposits                                    | 179,375,524.12                   | 485,938,753.88                         |
| Other monetary funds                             | 12,307,033.04                    | 17,328,625.03                          |
| Total  | <u>191,832,858.81</u>            | <u>503,377,298.34</u>                  |
| Include: total monetary funds deposited overseas | <u>17,901.31</u>                 | <u>17,798.44</u>                       |

##### (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 RMB12,307,033.04 for the issuance of the bank acceptance bills.

Monetary funds deposited overseas at the end of the period amounted to HKD20,945.29, equivalent to RMB17,901.31.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 2. Notes receivable

##### (1) Breakdown

| Item                  | Balance at the end of the period | Balance at the beginning of the period |
|-----------------------|----------------------------------|--|
| Bank acceptance bills | 155,035,076.48                   | 92,274,842.99                          |
| Total                 | 155,035,076.48                   | 92,274,842.99                          |

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

| Item                         | Pledged amount at the end of the period |
|------------------------------|---|
| Bank acceptance bills (Note) | 35,846,793.48                           |
| Sub-total                    | 35,846,793.48                           |

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

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

| Item                  | Amounts derecognized at the end of the period | Amounts not yet derecognized at the end of the period |
|-----------------------|---|---|
| Bank acceptance bills | 203,656,049.56                                | –   |
| Sub-total             | 203,656,049.56                                | –   |

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

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 3. Accounts receivable

##### (1) Breakdown

##### 1) Breakdown by types

| Types   | Balance at the end of the period |               |                         |             |                       |
|---|----------------------------------|---------------|-------------------------|-------------|-----------------------|
|   | Carrying amount                  |               | Provision for bad debts |             | Book value            |
|   | Amount                           | (%)           | Amount                  | (%)         |                       |
| Individually significant amount with bad debt provision on individual basis     | 344,943,657.06                   | 90.08         | -                       | -           | 344,943,657.06        |
| Individually insignificant but significant based on credit risk characteristics | 6,347,815.59                     | 1.66          | 4,266,400.86            | 67.21       | 2,081,414.73          |
| Individually insignificant amount with bad debt provision on individual basis   | 31,608,479.63                    | 8.26          | -                       | -           | 31,608,479.63         |
| <b>Total</b>  | <b>382,899,952.28</b>            | <b>100.00</b> | <b>4,266,400.86</b>     | <b>1.11</b> | <b>378,633,551.42</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     | 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> |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 3. Accounts receivable (continued)

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

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

| Age           | Balance at the end of the period |               |                         | Balance at the beginning of the period |               |                         |
|---------------|----------------------------------|---------------|-------------------------|--|---------------|-------------------------|
|               | Carrying amount                  |               | Provision for bad debts | Carrying amount                        |               | Provision for bad debts |
|               | Amount                           | (%)           |                         | Amount                                 | (%)           |                         |
| Within 1 year | 371,414,221.77                   | 97.00         | -                       | 317,909,089.92                         | 96.24         | -                       |
| 1-2 years     | 3,801,702.16                     | 0.99          | 343,406.37              | 6,830,773.39                           | 2.07          | 731,314.19              |
| 2-3 years     | 4,268,745.19                     | 1.12          | 799,846.22              | 2,517,980.00                           | 0.76          | 908,466.57              |
| Over 3 years  | 3,415,283.16                     | 0.89          | 3,123,148.27            | 3,076,535.74                           | 0.93          | 2,626,620.10            |
| Sub-total     | <u>382,899,952.28</u>            | <u>100.00</u> | <u>4,266,400.86</u>     | <u>330,334,379.05</u>                  | <u>100.00</u> | <u>4,266,400.86</u>     |

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.

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

| Description   | Carrying amount       | Provision     |               | Reason for provision  |
|---|-----------------------|---------------|---------------|---|
|   |                       | for bad debts | Provision (%) |   |
| Receivables of sales payment from Zhuzhou Hainachuan Automotive Chassis System Co., Ltd. (株洲海納川汽車底盤系統有限公司) and others | 344,943,657.06        | -             | -             | Individual impairment test showed no risk was expected of balance recover |
| Sub-total   | <u>344,943,657.06</u> | <u>-</u>      | <u>-</u>      |   |

4) Provision for bad debt by groups

| Group   | Carrying amount     | Provision (%) | Provision for bad debts |
|---|---------------------|---------------|-------------------------|
| Individually insignificant but significant based on credit risk characteristics | 6,347,815.59        | 67.21         | 4,266,400.86            |
| Sub-total   | <u>6,347,815.59</u> | <u>67.21</u>  | <u>4,266,400.86</u>     |

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

| Description   | Carrying amount      | Provision     |               | Reason for provision  |
|---|----------------------|---------------|---------------|---|
|   |                      | for bad debts | Provision (%) |   |
| Receivables of sales payment from Beiqi Foton Automobile Co., Ltd. Changsha Automobile Factory (北汽福田汽車股份有限公司長沙汽車廠) and others | 31,608,479.63        | -             | -             | Individual impairment test showed no risk was expected of balance recover |
| Sub-total   | <u>31,608,479.63</u> | <u>-</u>      | <u>-</u>      |   |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 3. Accounts receivable (continued)

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

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

(4) The five largest accounts receivable

| Name  | Carrying amount | Percentage of total accounts receivable (%) | Provision for bad debts |
|---|-----------------|---|-------------------------|
| Zhuzhou Hainachuan Automotive Chassis System Co., Ltd.<br>(株洲海納川汽車底盤系統有限公司) | 38,831,590.98   | 10.14                                       | –                       |
| Sazeh Gostar Saipa Co.  | 32,159,750.00   | 8.40  | –                       |
| FAW Jiefang Qingdao Automobile Co., Ltd.<br>(一汽解放青島汽車有限公司)                  | 28,651,368.99   | 7.48  | –                       |
| FAW-Car Co., Ltd.<br>(一汽轎車股份有限公司)   | 26,632,513.82   | 6.96  | –                       |
| Dongfeng Liuzhou Motor Co., Ltd.<br>(東風柳州汽車有限公司)                            | 20,158,601.56   | 5.26  | –                       |
| Sub-total   | 146,433,825.35  | 38.24                                       | –                       |

#### 4. Prepayments

(1) Aging analysis

| Ageing        | Balance at the end of the period |        | Balance at the beginning of the period |        |
|---------------|----------------------------------|--------|--|--------|
|               | Amount                           | (%)    | Carrying amount                        | (%)    |
| Within 1 year | 3,601,161.89                     | 70.02  | 6,064,822.30                           | 92.87  |
| 1-2 years     | 1,435,248.30                     | 27.91  | 408,992.96                             | 6.26   |
| 2-3 years     | 106,641.96                       | 2.07   | 56,374.71                              | 0.87   |
| Total         | 5,143,052.15                     | 100.00 | 6,530,189.97                           | 100.00 |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 4. Prepayments (continued)

##### (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<br>(萊蕪鋼鐵集團有限公司南京銷售分公司)   | 791,516.94      | 15.39   |
| National Grid Jilin Province Electricity Co., Ltd. Siping City Suburb Electricity Distribution Sub-company<br>(國網吉林省電力有限公司四平市城郊供電分公司) | 781,940.53      | 15.20   |
| Nachi (Shanghai) Co., Ltd.<br>(那智不二越(上海)貿易有限公司)   | 292,500.16      | 5.69  |
| Sinopec Marketing Co., Ltd. Zhejiang and Hangzhou Petroleum Branch<br>(中國石化銷售有限公司浙江杭州石油分公司)   | 289,802.05      | 5.63  |
| Jilin Province Electricity Co., Ltd. Siping Power Supply Company<br>(吉林省電力有限公司四平供電公司)   | 226,603.97      | 4.41  |
| Sub-total   | 2,382,363.65    | 46.32   |

#### 5. Other receivables

##### (1) Breakdown

##### 1) Breakdown by types

| Types   | Balance at the end of the period |        |                         |      | Book value   |
|---|----------------------------------|--------|-------------------------|------|--------------|
|   | Carrying amount                  |        | Provision for bad debts |      |              |
|   | Amount                           | (%)    | Amount                  | (%)  |              |
| Individually insignificant but significant based on credit risk characteristics | 1,222,811.26                     | 38.28  | 24,237.64               | 1.98 | 1,198,573.62 |
| Individually insignificant amount with bad debt provision on individual basis   | 1,971,505.01                     | 61.72  | -                       | -    | 1,971,505.01 |
| Total   | 3,194,316.27                     | 100.00 | 24,237.64               | 0.76 | 3,170,078.63 |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 5. Other receivables (continued)

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

##### 1) Breakdown by types (continued)

| Types   | Balance at the beginning of the period |               |                         |             | Book value          |
|---|--|---------------|-------------------------|-------------|---------------------|
|   | Carrying amount                        |               | Provision for bad debts |             |                     |
|   | Amount                                 | (%)           | Amount                  | (%)         |                     |
| Individually significant amount with bad debt provision on individual basis     | 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> |

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

| Age              | Balance at the end of the period |               |                         | Balance at the beginning of the period |               |                         |
|------------------|----------------------------------|---------------|-------------------------|--|---------------|-------------------------|
|                  | Carrying amount                  |               | Provision for bad debts | Carrying amount                        |               | Provision for bad debts |
|                  | Amount                           | (%)           |                         | Amount                                 | (%)           |                         |
| Within 1 year    | 1,909,031.76                     | 59.76         | -                       | 981,026.40                             | 30.14         | -                       |
| 1-2 years        | 200,281.70                       | 6.27          | -                       | 467,941.80                             | 14.38         | -                       |
| 2-3 years        | 369,317.95                       | 11.56         | -                       | 56,569.89                              | 1.74          | -                       |
| Over 3 years     | 715,684.86                       | 22.41         | 24,237.64               | 1,749,556.57                           | 53.74         | 24,237.64               |
| <b>Sub-total</b> | <b>3,194,316.27</b>              | <b>100.00</b> | <b>24,237.64</b>        | <b>3,255,094.66</b>                    | <b>100.00</b> | <b>24,237.64</b>        |

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

| Group   | Carrying amount     | Provision (%) | Provision for bad debts |
|---|---------------------|---------------|-------------------------|
| Individually insignificant but significant based on credit risk characteristics | 1,222,811.26        | 1.98          | 24,237.64               |
| <b>Sub-total</b>  | <b>1,222,811.26</b> | <b>1.98</b>   | <b>24,237.64</b>        |



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 5. Other receivables (continued)

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

- 4) Individually insignificant amount with bad debt provision on individual basis

| Description  | Carrying amount | Provision     |               | Reason for provision  |
|--|-----------------|---------------|---------------|---|
|  |                 | for bad debts | Provision (%) |   |
| Other receivables of individual imprest and provisional borrowings | 1,971,505.01    | -             | -             | Individual impairment test showed no risk was expected of balance recover |
| Sub-total  | 1,971,505.01    | -             | -             |   |

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

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

- (4) Classification by nature of other receivables

| Nature of the receivables | Balance at the end of the period | Balance at the beginning of the period |
|---------------------------|----------------------------------|--|
| Security deposits         | 606,601.00                       | 349,059.00                             |
| Imprest                   | 1,004,541.00                     | 1,873,644.32                           |
| Provisional borrowings    | 1,337,772.96                     | 875,521.31                             |
| Others                    | 245,401.31                       | 156,870.03                             |
| Sub-total                 | 3,194,316.27                     | 3,255,094.66                           |

- (5) The five largest other receivables

| Name   | Nature of the receivables | Carrying amount | Ageing                      | Percentage of other receivables carrying amount (%) | Provision for bad debts |
|--|---------------------------|-----------------|-----------------------------|---|-------------------------|
| Jilin Tiedong Economic Development Zone Administrative Committee<br>(吉林鐵東經濟開發區管理委員會) | Imprest                   | 400,000.00      | Over 3 years                | 12.52   | -                       |
| Anhui Jianghuai Automobile Co., Ltd.<br>(安徽江淮汽車股份有限公司)                               | Security deposits         | 300,000.00      | Within 1 year, over 3 years | 9.39  | -                       |
| Cai Li Ming (蔡黎明)  | Imprest                   | 210,000.00      | 1-2 years                   | 6.57  | -                       |
| Xu Kun (徐坤)  | Imprest                   | 194,541.00      | Within 1 year               | 6.09  | -                       |
| Yiwu City Housing and Urban and County Construction Bureau<br>(義烏市住房和城鄉建設局)          | Security deposits         | 187,059.00      | 2-3 years                   | 5.86  | -                       |
| Sub-total  |                           | 1,291,600.00    |                             | 40.43   | -                       |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 6. Inventories

##### (1) Breakdown

| Item                  | Balance at the end of the period |                   |                       | Balance at the beginning of the period |                   |                       |
|-----------------------|----------------------------------|-------------------|-----------------------|--|-------------------|-----------------------|
|                       | Carrying amount                  | Provision         | Book value            | Carrying amount                        | Provision         | Book value            |
| Raw materials         | 99,102,397.98                    | –                 | 99,102,397.98         | 79,202,768.05                          | –                 | 79,202,768.05         |
| Work-in-progress      | 22,767,294.72                    | –                 | 22,767,294.72         | 34,987,905.38                          | –                 | 34,987,905.38         |
| Finished goods        | 111,081,076.75                   | 903,808.81        | 110,177,267.94        | 136,988,335.84                         | 484,604.92        | 136,503,730.92        |
| Low-value consumables | 1,650,735.67                     | –                 | 1,650,735.67          | 1,706,046.93                           | –                 | 1,706,046.93          |
| Total                 | <u>234,601,505.12</u>            | <u>903,808.81</u> | <u>233,697,696.31</u> | <u>252,885,056.20</u>                  | <u>484,604.92</u> | <u>252,400,451.28</u> |

##### (2) Provision

##### 1) Breakdown

| Item           | Balance at the beginning of the period | Increase during the period |          | Decrease during the period |                   | Balance at the end of the period |
|----------------|--|----------------------------|----------|----------------------------|-------------------|----------------------------------|
|                |  | Provision                  | Others   | Reversal                   | Transfer (Note)   |                                  |
| Finished goods | 484,604.92                             | 903,808.81                 | –        | –                          | 484,604.92        | 903,808.81                       |
| Sub-total      | <u>484,604.92</u>                      | <u>903,808.81</u>          | <u>–</u> | <u>–</u>                   | <u>484,604.92</u> | <u>903,808.81</u>                |

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

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

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

#### 7. Other current assets

| Item                            | Balance at the end of the period | Balance at the beginning of the period |
|---------------------------------|----------------------------------|--|
| Bank wealth management products | 258,000,000.00                   | –                                      |
| Value added tax recoverable     | 2,013,622.23                     | 6,443,938.19                           |
| Prepaid expenses                | 6,259,078.93                     | 2,040,692.36                           |
| Prepaid corporate income tax    | 235,766.07                       | 226,567.95                             |
| Prepaid other tax               | 36,000.00                        | –                                      |
| Total                           | <u>266,544,467.23</u>            | <u>8,711,198.50</u>                    |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 8. Fixed assets

| Item                                      | Buildings and structures | Equipment             | Transportation vehicles | Other office equipment and others | Total                 |
|---|--------------------------|-----------------------|-------------------------|-----------------------------------|-----------------------|
| Cost                                      |                          |                       |                         |                                   |                       |
| Balance at the beginning of the period    | 196,195,280.17           | 520,333,402.31        | 20,868,448.39           | 17,922,669.28                     | 755,319,800.15        |
| Increase during the period                | 2,060,251.00             | 26,579,920.98         | 1,519,999.16            | 789,815.61                        | 30,949,986.75         |
| 1) Purchase                               | 811,100.00               | 13,740,181.24         | 380,899.16              | 104,620.74                        | 15,036,801.14         |
| 2) Transfer from construction in progress | 1,249,151.00             | 12,839,739.74         | 1,139,100.00            | 685,194.87                        | 15,913,185.61         |
| Decrease during the period                | –                        | 3,959,321.16          | 3,797,022.85            | 2,222.22                          | 7,758,566.23          |
| 1) Disposal                               | –                        | 3,959,321.16          | 3,797,022.85            | 2,222.22                          | 7,758,566.23          |
| Balance at the end of the period          | <u>198,255,531.17</u>    | <u>542,954,002.13</u> | <u>18,591,424.70</u>    | <u>18,710,262.67</u>              | <u>778,511,220.67</u> |
| Accumulated depreciation                  |                          |                       |                         |                                   |                       |
| Balance at the beginning of the period    | 47,221,598.45            | 229,185,282.94        | 14,282,555.85           | 11,740,018.26                     | 302,429,455.50        |
| Increase during the period                | 2,886,787.37             | 24,103,563.75         | 1,225,776.56            | 658,408.75                        | 28,874,536.43         |
| 1) Provision                              | 2,886,787.37             | 24,103,563.75         | 1,225,776.56            | 658,408.75                        | 28,874,536.43         |
| Decrease during the period                | –                        | 2,326,658.61          | 3,605,664.10            | –                                 | 5,932,322.71          |
| 1) Disposal                               | –                        | 2,326,658.61          | 3,605,664.10            | –                                 | 5,932,322.71          |
| Balance at the end of the period          | <u>50,108,385.82</u>     | <u>250,962,188.08</u> | <u>11,902,668.31</u>    | <u>12,398,427.01</u>              | <u>325,371,669.22</u> |
| Provision                                 |                          |                       |                         |                                   |                       |
| Balance at the beginning of the period    | 825,717.39               | 245,524.61            | –                       | –                                 | 1,071,242.00          |
| Increase during the period                | –                        | –                     | –                       | –                                 | –                     |
| 1) Provision                              | –                        | –                     | –                       | –                                 | –                     |
| Decrease during the period                | –                        | –                     | –                       | –                                 | –                     |
| 1) Disposal                               | –                        | –                     | –                       | –                                 | –                     |
| Balance at the end of the period          | <u>825,717.39</u>        | <u>245,524.61</u>     | <u>–</u>                | <u>–</u>                          | <u>1,071,242.00</u>   |
| Book value                                |                          |                       |                         |                                   |                       |
| Book value at the end of the period       | <u>147,321,427.96</u>    | <u>291,746,289.44</u> | <u>6,688,756.39</u>     | <u>6,311,835.66</u>               | <u>452,068,309.45</u> |
| Book value at the beginning of the period | <u>148,147,964.33</u>    | <u>290,902,594.76</u> | <u>6,585,892.54</u>     | <u>6,182,651.02</u>               | <u>451,819,102.65</u> |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 9. Construction in progress

##### (1) Breakdown

| Project name   | Balance at the end of the period |           |                      | Balance at the beginning of the period |           |                      |
|--|----------------------------------|-----------|----------------------|--|-----------|----------------------|
|  | Carrying amount                  | Provision | Book value           | Carrying amount                        | Provision | Book value           |
| The precious casting and processing of automotive components project   | 17,116,091.79                    | -         | 17,116,091.79        | 17,337,307.74                          | -         | 17,337,307.74        |
| The increase of production of power automotive steering gears project  | 17,270,524.40                    | -         | 17,270,524.40        | 8,000,469.00                           | -         | 8,000,469.00         |
| Capacity expansion project of Hangzhou New Shibao  | 1,384,009.73                     | -         | 1,384,009.70         | 6,385,293.75                           | -         | 6,385,293.75         |
| The research and development, examination and inspection and trial production centre of automotive steering gear system project          | 1,207,132.71                     | -         | 1,207,132.70         | 804,312.21                             | -         | 804,312.21           |
| The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project | 14,107,932.41                    | -         | 14,107,932.40        | 7,546,724.20                           | -         | 7,546,724.20         |
| Other sundry projects  | 9,979,108.15                     | -         | 9,979,108.20         | 3,896,770.79                           | -         | 3,896,770.79         |
| <b>Total</b>   | <b>61,064,799.19</b>             | <b>-</b>  | <b>61,064,799.19</b> | <b>43,970,877.69</b>                   | <b>-</b>  | <b>43,970,877.69</b> |

##### (2) Movement of material construction in progress projects during the period

| Project name   | Budget                | Balance at the beginning of the period | Increase during the period | Transfer to fixed assets | Other decrease | Percentage of invested amount to budget (%) | Construction progress (%) | Accumulated amount of capitalized interests | Amount of capitalized interests during the period | Interest rate of capitalized interests during the period (%) | Source of fund | Balance at the end of the period |
|--|-----------------------|--|----------------------------|--------------------------|----------------|---|---------------------------|---|---|--|----------------|----------------------------------|
| The precious casting and processing of automotive components project   | 235,364,100.00        | 17,337,307.74                          | 222,751.45                 | 443,967.40               | -              | 20.97                                       | 22%                       | 3,029,442.84                                | -   | -  | Proceeds       | 17,116,091.79                    |
| The increase of production of power automotive steering gears project  | 181,234,700.00        | 8,000,469.00                           | 15,399,884.50              | 6,129,829.10             | -              | 74.86                                       | 80%                       | 2,957,831.01                                | -   | -  | Proceeds       | 17,270,524.40                    |
| Capacity expansion project of Hangzhou New Shibao  | -                     | 6,385,293.75                           | 2,260,901.29               | 7,262,185.31             | -              | -   | -                         | -   | -   | -  | Internal fund  | 1,384,009.73                     |
| The research and development, examination and inspection and trial production centre of automotive steering gear system project          | 45,000,000.00         | 804,312.21                             | 524,871.79                 | 122,051.29               | -              | 23.48                                       | 25%                       | -   | -   | -  | Proceeds       | 1,207,132.71                     |
| The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project | 360,671,000.00        | 7,546,724.20                           | 6,561,208.21               | -                        | -              | 3.91  | 7%                        | -   | -   | -  | Proceeds       | 14,107,932.41                    |
| Other sundry projects  | -                     | 3,896,770.79                           | 8,037,489.87               | 1,955,152.51             | -              | -   | -                         | -   | -   | -  | Internal fund  | 9,979,108.15                     |
| <b>Total</b>   | <b>822,269,800.00</b> | <b>43,970,877.69</b>                   | <b>33,007,107.11</b>       | <b>15,913,185.61</b>     | <b>-</b>       | <b>-</b>                                    | <b>-</b>                  | <b>5,987,273.85</b>                         | <b>-</b>  | <b>-</b>   | <b>-</b>       | <b>61,064,799.19</b>             |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 10. Intangible assets

##### (1) Breakdown

| Item                                      | Land use right | Patented technology | Non-patented technology | Management software | Total          |
|---|----------------|---------------------|-------------------------|---------------------|----------------|
| Cost                                      |                |                     |                         |                     |                |
| Balance at the beginning of the period    | 105,194,617.43 | 1,281,666.67        | 48,696,372.12           | 3,891,183.34        | 159,063,839.56 |
| Increase during the period                | 1,000,000.00   | –                   | –                       | 13,333.34           | 1,013,333.34   |
| 1) Purchase                               | 1,000,000.00   | –                   | –                       | 13,333.34           | 1,013,333.34   |
| Decrease during the period                | –              | –                   | –                       | –                   | –              |
| 1) Disposal                               | –              | –                   | –                       | –                   | –              |
| Balance at the end of the period          | 106,194,617.43 | 1,281,666.67        | 48,696,372.12           | 3,904,516.68        | 160,077,172.90 |
| Accumulated amortization                  |                |                     |                         |                     |                |
| Balance at the beginning of the period    | 14,889,734.34  | 662,195.33          | 26,634,703.24           | 1,823,567.52        | 44,010,200.43  |
| Increase during the period                | 1,089,494.37   | 64,083.32           | 3,289,574.38            | 317,631.17          | 4,760,783.24   |
| 1) Provision                              | 1,089,494.37   | 64,083.32           | 3,289,574.38            | 317,631.17          | 4,760,783.24   |
| Decrease during the period                | –              | –                   | –                       | –                   | –              |
| 1) Disposal                               | –              | –                   | –                       | –                   | –              |
| Balance at the end of the period          | 15,979,228.71  | 726,278.65          | 29,924,277.62           | 2,141,198.69        | 48,770,983.67  |
| Book value                                |                |                     |                         |                     |                |
| Book value at the end of the period       | 90,215,388.72  | 555,388.02          | 18,772,094.50           | 1,763,317.99        | 111,306,189.23 |
| Book value at the beginning of the period | 90,304,883.09  | 619,471.34          | 22,061,668.88           | 2,067,615.82        | 115,053,639.13 |

#### 11. Goodwill

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

| Item   | Balance as at the end of the period |                            | Balance as at the beginning of the period |                            |
|--|-------------------------------------|----------------------------|---|----------------------------|
|  | Deductible temporary differences    | Deferred income tax assets | Deductible temporary differences          | Deferred income tax assets |
| Provision for impairment of assets                 | 4,266,400.86                        | 849,874.60                 | 4,266,400.86                              | 849,874.60                 |
| Profits not realized from intra-group transactions | 2,542,410.80                        | 461,584.01                 | 2,496,335.83                              | 512,073.52                 |
| Deductible losses                                  | 11,181,628.05                       | 2,795,407.01               | 13,874,588.36                             | 3,468,647.09               |
| Warranty expenses                                  | 7,567,527.20                        | 1,294,845.78               | 6,918,388.47                              | 1,168,867.96               |
| Total  | 25,557,966.91                       | 5,401,711.40               | 27,555,713.52                             | 5,999,463.17               |

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

| Item  | Balance as at the end of the period |                                 | Balance as at the beginning of the period |                                 |
|---|-------------------------------------|---------------------------------|---|---------------------------------|
|   | Deductible temporary differences    | Deferred income tax liabilities | Deductible temporary differences          | Deferred income tax liabilities |
| Asset valuation surplus arising from business combination not under the common control (Note) | 18,724,442.54                       | 4,681,110.63                    | 20,473,294.04                             | 5,118,323.51                    |
| Total   | 18,724,442.54                       | 4,681,110.63                    | 20,473,294.04                             | 5,118,323.51                    |

(Note): There are taxable temporary differences arising from fair value adjustment on various identifiable assets and liabilities in acquiring Wuhu Sterling through business combination not under the common control in stages during 2013. The balance as at the beginning of 2016 was RMB16,756,460.62. During the period, taxable temporary differences of the reversal of fair value amortization was RMB1,364,351.52. As at 30 June 2016, the taxable temporary differences arising from such fair value adjustment amounted to RMB15,392,109.10.

In previous years, there were taxable temporary differences arising from fair value adjustment in various identifiable assets and liabilities in acquiring Beijing Autonics through business combination not under the common control. Its balance as at the beginning of 2016 was RMB3,716,833.42. During the period, taxable temporary differences of the reversal of fair value amortization was RMB384,499.98. As at 30 June 2016, the taxable temporary differences arising from such fair value adjustment amounted to RMB3,332,333.44.

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

| Item                            | Offset amount of deferred income tax assets and liabilities at the end of the period | Remaining deferred income tax assets or liabilities after offset at the end of the period | Offset amount of deferred income tax assets and liabilities at the beginning of the period | Remaining deferred income tax assets or liabilities after offset at the beginning of the period |
|---------------------------------|--|---|--|---|
| Deferred income tax assets      | -  | 5,401,711.40  | -  | 5,999,463.17  |
| Deferred income tax liabilities | -  | 4,681,110.63  | -  | 5,118,323.51  |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

| Item  | Balance as at the end of the period | Balance as at the beginning of the period |
|---|-------------------------------------|---|
| Provision for decline in price of inventories | 903,808.81                          | 484,604.92                                |
| Deductible losses                             | 74,097,097.47                       | 65,007,150.18                             |
| Total   | 75,000,906.28                       | 65,491,755.10                             |

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

| Year      | Balance as at the end of the period | Balance as at the beginning of the period | Note |
|-----------|-------------------------------------|---|------|
| 2016      | 8,877,954.69                        | 11,075,890.22                             |      |
| 2017      | 14,508,183.10                       | 12,322,679.00                             |      |
| 2018      | 13,129,806.38                       | 12,933,654.41                             |      |
| 2019      | 17,327,830.20                       | 17,603,714.36                             |      |
| 2020      | 10,674,041.99                       | 11,071,212.19                             |      |
| 2021      | 9,579,281.11                        | –   |      |
| Sub-total | 74,097,097.47                       | 65,007,150.18                             |      |

#### 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 | 90,720,142.04                    | 65,052,282.41                          |
| Deposit to fulfill the contract          | 6,620,000.00                     | 6,620,000.00                           |
| Total                                    | 97,340,142.04                    | 71,672,282.41                          |

#### 14. Short-term loans

| Item             | Balance at the end of the period | Balance at the beginning of the period |
|------------------|----------------------------------|--|
| Guaranteed loans | 12,000,000.00                    | 25,000,000.00                          |
| Total            | 12,000,000.00                    | 25,000,000.00                          |

All of the above short-term loans are bank loans with annual interest rate of 4.35%.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 15. Notes payable

| Type                  | Balance at the end of the period | Balance at the beginning of the period |
|-----------------------|----------------------------------|--|
| Bank acceptance bills | 47,376,642.08                    | 74,239,657.73                          |
| Total                 | 47,376,642.08                    | 74,239,657.73                          |

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

#### 16. Accounts payable

##### (1) Breakdown

| Item                         | Balance at the end of the period | Balance at the beginning of the period |
|------------------------------|----------------------------------|--|
| Purchase of inventory        | 286,124,637.36                   | 216,433,367.24                         |
| Purchase of long term assets | 15,662,089.45                    | 17,393,749.14                          |
| Total                        | 301,786,726.81                   | 233,827,116.38                         |

##### (2) Aging analysis

| Age           | Balance at the end of the period | Balance at the beginning of the period |
|---------------|----------------------------------|--|
| Within 1 year | 289,082,560.82                   | 222,179,512.69                         |
| 1-2 years     | 7,741,863.66                     | 7,403,569.58                           |
| 2-3 years     | 2,543,617.76                     | 2,433,777.15                           |
| Over 3 years  | 2,418,684.57                     | 1,810,256.96                           |
| Total         | 301,786,726.81                   | 233,827,116.38                         |

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 | 5,837,766.54                     | 6,044,129.53                           |
| Total                                   | 5,837,766.54                     | 6,044,129.53                           |



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 17. Receipts in advance (continued)

##### (2) Aging analysis

| Age           | Balance at the end of the period | Balance at the beginning of the period |
|---------------|----------------------------------|--|
| Within 1 year | 4,276,648.14                     | 4,870,200.70                           |
| 1-2 years     | 1,561,118.40                     | 1,173,928.83                           |
| Total         | 5,837,766.54                     | 6,044,129.53                           |

#### 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  | 13,492,860.01                          | 63,164,116.46              | 65,175,773.36              | 11,481,203.11                    |
| Post-employment benefits – established withdrawal and deposit plan | 1,264,380.74                           | 5,473,463.59               | 6,237,163.71               | 500,680.62                       |
| Total  | 14,757,240.75                          | 68,637,580.05              | 71,412,937.07              | 11,981,883.73                    |

##### (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       | 11,988,830.58                          | 53,362,628.49              | 56,316,261.48              | 9,035,197.59                     |
| Staff welfare                                   | 2,022.50                               | 5,109,883.51               | 3,877,706.54               | 1,234,199.47                     |
| Social insurance                                | 1,076,712.75                           | 3,383,795.51               | 4,007,631.79               | 452,876.47                       |
| Including: Medical insurance                    | 930,790.69                             | 3,042,526.72               | 3,584,642.56               | 388,674.85                       |
| Work injury insurance                           | 48,608.68                              | 132,185.05                 | 160,020.62                 | 20,773.11                        |
| Maternity insurance                             | 97,313.38                              | 209,083.74                 | 262,968.61                 | 43,428.51                        |
| Housing funds                                   | –                                      | 404,125.00                 | 398,685.00                 | 5,440.00                         |
| Labour union funds and employee education funds | 425,294.18                             | 903,683.95                 | 575,488.55                 | 753,489.58                       |
| Sub-total                                       | 13,492,860.01                          | 63,164,116.46              | 65,175,773.36              | 11,481,203.11                    |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 18. Staff costs payable (continued)

(3) Breakdown of established withdrawal and deposit plan

| Item                    | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period |
|-------------------------|--|----------------------------|----------------------------|----------------------------------|
| Basic pension insurance | 1,145,786.62                           | 5,153,330.71               | 5,841,479.14               | 457,638.19                       |
| Unemployment insurance  | 118,594.12                             | 320,132.88                 | 395,684.57                 | 43,042.43                        |
| Sub-total               | 1,264,380.74                           | 5,473,463.59               | 6,237,163.71               | 500,680.62                       |

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

#### 19. Taxes payable

| Item                                   | Balance at the end of the period | Balance at the beginning of the period |
|--|----------------------------------|--|
| Value added tax                        | 1,774,175.59                     | 3,218,266.81                           |
| Value added tax                        | -                                | 8,276.05                               |
| Corporate income tax                   | 5,855,067.98                     | 2,653,558.49                           |
| Withhold of individual income tax      | 268,154.05                       | 249,812.37                             |
| Urban maintenance and construction tax | 116,833.33                       | 343,246.63                             |
| Others                                 | 296,742.53                       | 566,007.17                             |
| Total                                  | 8,310,973.48                     | 7,039,167.52                           |

#### 20. Interests payable

| Item  | Balance at the end of the period | Balance at the beginning of the period |
|---|----------------------------------|--|
| Interests payable for short-term loans  | 10,875.01                        | 34,931.51                              |
| Interest of long-term borrowings with periodic payments of interest and return of principal at maturity | 956,433.33                       | 956,433.33                             |
| Total   | 967,308.34                       | 991,364.84                             |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 21. Dividends payable

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

#### 22. Other payables

| Item                                   | Balance at the end of the period | Balance at the beginning of the period |
|--|----------------------------------|--|
| Payable of temporary receipts          | 651,373.25                       | 297,119.84                             |
| Security deposits                      | 3,118,471.53                     | 3,443,758.77                           |
| Labour service company management fees | 383,399.98                       | 612,451.97                             |
| Others                                 | 286,309.40                       | 501,052.87                             |
| Total                                  | 4,439,554.16                     | 4,854,383.45                           |

#### Other material payables aged over one year

| Item  | Balance at the end of the period | Reason for non-repayment or carrying forward |
|---|----------------------------------|--|
| Panfar Construction Group Co., Ltd.<br>(八方建設集團有限公司) | 2,568,712.76                     | Construction retention                       |
| Total   | 2,568,712.76                     |  |

#### 23. Non-current liabilities due within one year

##### (1) Breakdown

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

(Note): These loans represented the capital loans from the Management Committee of the Tiedong Economic Development Zone in Siping for a subsidiary, Jilin Shibao, to expand production. The original borrowing period was 28 November 2011 to 28 November 2014. The Management Committee of the Tiedong Economic Development Zone in Siping has extended the repayment date to the end of 2016.

#### 24. Other current liabilities

| Item   | Balance at the end of the period | Balance at the beginning of the period |
|--|----------------------------------|--|
| Deferred income-assets related government grants | 4,744,875.45                     | 4,417,705.65                           |
| Accrued expenses                                 | 13,930,606.27                    | 11,110,825.61                          |
| Total  | 18,675,481.72                    | 15,528,531.26                          |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 25. Long-term borrowings

##### (1) Breakdown

| Item                             | Balance at the end of the period | Balance at the beginning of the period |
|----------------------------------|----------------------------------|--|
| Special funds for treasury bonds | 1,380,000.00                     | 1,380,000.00                           |
| Total                            | 1,380,000.00                     | 1,380,000.00                           |

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

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

#### 26. Deferred income

##### (1) Breakdown

| Item              | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period | Reason |
|-------------------|--|----------------------------|----------------------------|----------------------------------|--------|
| Government grants | 25,761,023.76                          | 13,890,000.00              | 2,699,607.51               | 36,951,416.25                    |        |
| Total             | 25,761,023.76                          | 13,890,000.00              | 2,699,607.51               | 36,951,416.25                    |        |

##### (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 | 15,839,166.70                          | -                                    | 1,595,000.00  | -              | 14,244,166.70                    | Assets related                 |
| Subsidy funds for the precious casting and processing of automotive components project                           | 4,433,037.11                           | -                                    | 51,480.16   | -              | 4,381,556.95                     | Assets related                 |
| Special funds for establishment of a platform for public services provided in foreign trading                    | 1,779,508.90                           | -                                    | 182,589.30  | -              | 1,596,919.60                     | Assets related                 |
| Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear           | 3,141,280.00                           | -                                    | 324,960.00  | -              | 2,816,320.00                     | Assets related                 |
| Heavy load hydraulic rack-and-pinion steering gear for high class market   | 372,231.04                             | -                                    | 38,506.68   | -              | 333,724.36                       | Assets related                 |
| Subsidies for R&D equipment  | 195,800.01                             | -                                    | 16,316.67   | -              | 179,483.34                       | Assets related                 |
| Technical improvement project for quality enhancement of rack-and-pinion steering gear                           | -                                      | 2,890,000.00                         | 163,584.90  | 327,169.80     | 2,399,245.30                     | Assets related                 |
| R&D service platform for components of automotive steering system  | -                                      | 11,000,000.00                        | -   | -              | 11,000,000.00                    | Assets related                 |
| Total  | 25,761,023.76                          | 13,890,000.00                        | 2,372,437.71  | 327,169.80     | 36,951,416.25                    |                                |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 27. Share capital

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

#### 28. Capital reserve

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

#### 29. Surplus reserve

| Item                    | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period |
|-------------------------|--|----------------------------|----------------------------|----------------------------------|
| Statutory reserve funds | 125,531,891.62                         | –                          | –                          | 125,531,891.62                   |
| Total                   | 125,531,891.62                         | –                          | –                          | 125,531,891.62                   |

#### 30. Retained earnings

| Item  | Balance for the current period | Balance for the corresponding period last year |
|---|--------------------------------|--|
| Retained earnings at the end of last year before adjustment     | 341,181,295.69                 | 323,380,540.91                                 |
| Retained earnings at the beginning of the year after adjustment | 341,181,295.69                 | 323,380,540.91                                 |
| Add: Net profit attributable to equity holders of the parent    | 38,867,423.38                  | 36,109,760.10                                  |
| Less: Dividends payable   | 31,585,785.50                  | 31,585,785.50                                  |
| Retained earnings at the end of the period                      | 348,462,933.57                 | 327,904,515.51                                 |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 1. Revenue/cost of sales

| Item                        | Balance for<br>the current period |                | Balance for<br>the corresponding period last year |                |
|-----------------------------|-----------------------------------|----------------|---|----------------|
|                             | Revenue                           | Cost           | Revenue   | Cost           |
| Revenue from main business  | 527,243,673.19                    | 407,439,879.99 | 440,326,133.52                                    | 325,950,419.81 |
| Revenue from other business | 4,333,355.53                      | 1,186,483.06   | 2,397,330.12                                      | 173,020.61     |
| Total                       | 531,577,028.72                    | 408,626,363.05 | 442,723,463.64                                    | 326,123,440.42 |

#### 2. Business taxes and surcharges

| Item                                   | Balance for<br>the current period | Balance for<br>the corresponding<br>period last year |
|--|-----------------------------------|--|
| Business tax                           | 46,371.33                         | –  |
| Urban maintenance and construction tax | 1,038,872.41                      | 1,570,764.45   |
| Education surcharge                    | 480,233.33                        | 682,585.91   |
| Local education surcharge              | 276,028.98                        | 453,238.47   |
| Total                                  | 1,841,506.05                      | 2,706,588.83   |

#### 3. Sales expenses

| Item                         | Balance for<br>the current period | Balance for<br>the corresponding<br>period last year |
|------------------------------|-----------------------------------|--|
| Transportation cost          | 9,419,222.89                      | 9,262,078.65   |
| Warranty fee                 | 7,250,717.55                      | 4,548,541.76   |
| Wages, welfare and bonuses   | 4,140,008.88                      | 4,117,273.68   |
| Travelling expenses          | 1,693,478.15                      | 1,741,188.60   |
| Agent fee                    | 137,603.47                        | 1,544,004.00   |
| Entertainment charge         | 2,238,721.15                      | 1,435,466.85   |
| Depreciation of fixed assets | 216,771.83                        | 246,862.00   |
| Others                       | 2,188,592.71                      | 2,009,464.37   |
| Total                        | 27,285,116.63                     | 24,904,879.91  |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 4. General and administration expenses

| Item                              | Balance for the current period | Balance for the corresponding period last year |
|-----------------------------------|--------------------------------|--|
| Wages, welfare and bonuses        | 16,504,661.93                  | 14,413,377.44                                  |
| Research and development expenses | 17,930,229.53                  | 16,481,132.68                                  |
| Office cost                       | 3,723,505.40                   | 3,505,225.62                                   |
| Professional service fee          | 2,697,064.63                   | 4,211,912.67                                   |
| Depreciation of fixed assets      | 2,049,826.11                   | 2,319,015.33                                   |
| Amortization of intangible assets | 3,361,176.80                   | 3,667,109.87                                   |
| Other taxation                    | 2,068,599.78                   | 2,713,132.12                                   |
| Travelling expenses               | 1,116,084.48                   | 1,517,141.70                                   |
| Entertainment charge              | 1,066,134.03                   | 1,165,871.97                                   |
| Others                            | 960,934.40                     | 1,526,923.09                                   |
| Total                             | 51,478,217.09                  | 51,520,842.49                                  |

#### 5. Financial expenses

| Item              | Balance for the current period | Balance for the corresponding period last year |
|-------------------|--------------------------------|--|
| Interest expenses | 438,776.81                     | 5,602,736.22                                   |
| Interest income   | -1,812,810.40                  | -1,685,209.47                                  |
| Other             | 214,114.00                     | 1,015,967.50                                   |
| Total             | -1,159,919.59                  | 4,933,494.25                                   |

#### 6. Assets impairment losses

| Item                             | Balance for the current period | Balance for the corresponding period last year |
|----------------------------------|--------------------------------|--|
| Provision for inventories losses | 903,808.81                     | 418,291.47                                     |
| Total                            | 903,808.81                     | 418,291.47                                     |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 7. Investment gains

| Item                                       | Balance for the current period | Balance for the corresponding period last year |
|--|--------------------------------|--|
| Gains from bank wealth management products | 2,656,495.90                   | 6,600,246.57                                   |
| Total                                      | 2,656,495.90                   | 6,600,246.57                                   |

#### 8. Non-operating income

##### (1) Breakdown

| Item  | Balance for this period | Balance for the same period last year | Amount recognized as non-recurring gain and loss during the period |
|---|-------------------------|---------------------------------------|--|
| Total gains from disposal of non-current assets | 357,307.67              | 116,510.35                            | 357,307.67   |
| Including: Gains from disposal of fixed assets  | 357,307.67              | 116,510.35                            | 357,307.67   |
| Government grants                               | 3,723,737.71            | 3,413,852.81                          | 3,723,737.71   |
| Others  | 35,360.40               | 453,193.64                            | 35,360.40  |
| Total   | 4,116,405.78            | 3,983,556.80                          | 4,116,405.78   |

##### (2) Government grants

| Item   | Balance for this period | Balance for the same period last year | Asset related/revenue related | Description |
|--|-------------------------|---------------------------------------|-------------------------------|-------------|
| Special funds for adjustment and improvement project for traditional industry bases including the Northeast Area | 1,594,999.96            | 1,594,999.96                          | Asset related                 | Note 1      |
| Subsidy funds for the precious casting and processing of automotive components project                           | 51,480.20               | 51,480.20                             | Asset related                 | Note 2      |
| Special funds for establishment of a platform for public services provided in foreign trading                    | 182,589.30              | 182,589.30                            | Asset related                 | Note 3      |
| Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear           | 324,960.00              | 324,960.00                            | Asset related                 | Note 4      |
| Heavy load hydraulic rack-and-pinion steering gear for high class market   | 38,506.68               | 38,506.68                             | Asset related                 | Note 5      |
| Subsidies for purchasing of equipment  | 6,205.56                | 6,205.56                              | Asset related                 | Note 6      |
| Payment of subsidies of Provincial innovation policies   | 10,111.11               | 10,111.11                             | Asset related                 | Note 7      |



# NOTES TO THE FINANCIAL STATEMENTS

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

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

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

##### (2) Government grants (continued)

| Item  | Balance for this period | Balance for the same period last year | Asset related/revenue related | Description |
|---|-------------------------|---------------------------------------|-------------------------------|-------------|
| Subsidies for technical innovation project of high-performance rack-and-pinion steering gear which can effectively minimize abnormal sounds         | 380,000.00              | 380,000.00                            | Revenue related               | Note 8      |
| Incentive funds in respect of urban land use tax  | 792,000.00              | 815,000.00                            | Revenue related               | Note 9      |
| Technical improvement project for quality enhancement of rack-and-pinion steering gear  | 163,584.90              | –                                     | Asset related                 | Note 10     |
| Subsidy funds for supporting enterprises with volume of import and export lower than USD65,000,000 to enhance their international operation ability | 29,300.00               | –                                     | Revenue related               | Note 11     |
| Technical improvement project for quality enhancement of rack-and-pinion steering gear  | 100,000.00              | –                                     | Revenue related               | Note 12     |
| Subsidy expenses for the establishment of the first phase of post-doctoral scientific research station at provincial level                          | 50,000.00               | –                                     | Revenue related               | Note 13     |
| Others  | –                       | 10,000.00                             | Revenue related               |             |
| Sub-total   | <u>3,723,737.71</u>     | <u>3,413,852.81</u>                   |                               |             |

(Note 1) “Reply of the Office of NDRC on Investment Project for Adjustment and Improvement for Traditional Industry Bases Including the Northeast Area within National Budget in 2010” (《國家發展改革委辦公廳關於東北等老工業基地調整改造2010年中央預算內投資項目的復函》) (Fa Gai Ban Chan Ye (2010) No. 2684) (發改辦產產[2010]2684號) issued by National Development and Reform Commission (國家發展改革委員會).

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

##### (2) Government grants (continued)

- (Note 4) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou"(《關於下達2013年杭州市工業統籌資金重大創新等項目資助資金的通知》) (Hang Cai Qi (2013) No. 1550) (杭財企[2013]1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee.
- (Note 5) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou" (《關於下達2013年杭州市工業統籌資金重大創新等項目資助資金的通知》) (Hang Cai Qi (2013) No.1550) (杭財企 [2013] 1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee.
- (Note 6) "Publicity of Acceptance of Industry Transform Projects and Investment of Individual Equipment Subsidies Projects" (《關於承接產業轉移項目和單台設備投資補助項目的公示》) issued by Wuhu Municipal economy and information technology department on 24 October 2013.
- (Note 7) "Notice of Granting of Special Fund Program (Incentives and Subsidies) on Building Innovative Province of Anhui Province 2014" (《關於下達2014年安徽省创新型省份建設專項資金計劃(獎補類)的通知》) (Ke Ji (2014) No.58) (科計 [2014] 58號) issued by Anhui Province Department of Science and Technology.
- (Note 8) "Notice of Granting of Supporting Fund of Industrial and Technological Pooling of Capital for Machinery Replacement Projects in 2014" (《關於下達2014年工業和科技統籌資金機器換入等項目資助資金的通知》) (Hang Cai Qi (2014) No.1024) (杭財企[2014] 1024號) issued by Administrative Committee of Hangzhou Economic and Technological Development Area and Finance Bureau of Hangzhou Economic and Technological Development Area.
- (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 for the Development of Special Technical Improvement Project for Finance and Internet of Things for Factories by Provincial and Municipal Ministry of Industry and Information Technology in 2015" (《關於下達2015年省市工業和信息化發展專項技術改造和工廠物聯網項目資助資金的通知》)(Hang Jing Kai Jing [2015] No. 353) (杭經開經 [2015] 353號) issued by Administrative Committee of Hangzhou Economic and Technological Development Area and Finance Bureau of Hangzhou Economic and Technological Development Area.
- (Note 11) Department of Commerce of Zhejiang Province: Special fund for foreign economic relations and trade – Support enterprises worth lower than USD65,000,000 to enhance their international operation ability.
- (Note 12) "Notice of Granting of Supporting Fund for the Second Batch of '115' Foreign Intelligence Introduction Scheme in the Development Area in 2014" (《關於下達開發區2014年度第二批"115"引進國外智力計劃項目資助資金的通知》)(Hang Jing Kai Ren [2016] No. 6) (杭經開人[2016] 6號) issued by Human Resources and Social Security Bureau of Hangzhou Economic and Technological Development Area and Finance Bureau of Hangzhou Economic and Technological Development Area.
- (Note 13) "Notice of Verification and Appropriation of Subsidies for the Establishment of Hangzhou Post-doctoral Scientific Research Work Station and One-off Scientific Research Subsidies for Post-doctoral Researchers" (《關於核撥杭州市博士後科研工作站建站資助和博士後研究人員一次性科研補助經費的通知》) (Hang Cai Hang [2015] No. 85) (杭財行[2015] 85號) issued by Hangzhou Municipal Finance Bureau and Human Resources and Social Security Bureau of Hangzhou City.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 9. Non-operating expenses

| Item   | Balance for this period | Balance for the same period last year | Amount recognized as non-recurring gain and loss during the period |
|--|-------------------------|---------------------------------------|--|
| Total losses from disposal of non-current assets | 307,057.20              | 1,208,726.88                          | 307,057.20   |
| Including: Losses from disposal of fixed assets  | 307,057.20              | 1,208,726.88                          | 307,057.20   |
| Local water conservancy construction funds       | 535,196.53              | 344,989.31                            | –  |
| Others   | 47,029.58               | 9,004.53                              | 47,029.58  |
| Total  | 889,283.31              | 1,562,720.72                          | 354,086.78   |

#### 10. Income tax expenses

##### (1) Breakdown

| Item                | Balance for the current period | Balance for the corresponding period last year |
|---------------------|--------------------------------|--|
| Current income tax  | 8,043,190.17                   | 7,367,317.45                                   |
| Deferred income tax | 160,538.89                     | -503,414.03                                    |
| Total               | 8,203,729.06                   | 6,863,903.42                                   |

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries had no assessable profits arising in Hong Kong during the reporting period under review (corresponding period of 2015: Nil).

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

| Item  | Balance for the current period |
|---|--------------------------------|
| Total profit  | 48,485,555.05                  |
| Income tax expenses calculated at legal/applicable tax rate   | 12,121,388.78                  |
| Effects of different applicable tax rates on subsidiaries   | -5,444,411.99                  |
| Effects of adjusting income tax of prior periods  | –                              |
| Effects on non-taxable income   | -411,620.04                    |
| Effects on non-deductible costs, expenses and losses  | 179,412.01                     |
| The effect of utilization of deductible loss arising from deferred income tax assets not previously recognized              | -440,949.23                    |
| Effects of deductible temporary differences or deductible loss of deferred income tax assets unrecognized during the period | 2,622,105.33                   |
| Effects of including and excluding R&D expenses   | -1,095,435.88                  |
| Write-off of deferred income tax assets   | 673,240.08                     |
| Income tax expenses   | 8,203,729.06                   |

# 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    | 17,323,496.74                  | 17,556,059.52                                  |
| Receipt of government grants which are revenue related | 1,351,300.00                   | 390,000.00                                     |
| Interest income  | 1,812,810.40                   | 1,685,209.47                                   |
| Others   | 35,360.40                      | 637,544.08                                     |
| Total  | 20,522,967.54                  | 20,268,813.07                                  |

#### 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                      | 17,978,165.51                  | 16,968,461.68                                  |
| Cash paid as general and administrative expenses   | 9,127,699.39                   | 12,596,627.34                                  |
| Payment of deposits including banker's acceptances | 12,301,904.75                  | 6,147,696.24                                   |
| Others   | 622,896.53                     | 674,342.15                                     |
| Total  | 40,030,666.18                  | 36,387,127.41                                  |

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

| Item   | Balance for the current period | Balance for the corresponding period last year |
|--|--------------------------------|--|
| Receipt of government grants which are asset related | 13,890,000.00                  | –  |
| Total  | 13,890,000.00                  | –  |

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 5. Supplemental information on the statement of cash flows

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

| Supplemental information  | Balance for<br>the current period | Balance for<br>the corresponding<br>period last year |
|---|-----------------------------------|--|
| 1) Net profit adjusted to cash flows in relation to operating activities:                     |                                   |  |
| Net profit  | 40,281,825.99                     | 34,273,105.50  |
| Add: Provision for impairment to assets   | 903,808.81                        | 418,291.47   |
| Depreciation of fixed assets, oil and gas assets and production                               | 28,874,536.43                     | 26,840,570.27  |
| Amortization of intangible assets   | 4,760,783.24                      | 4,825,948.65   |
| Losses on disposal of fixed assets, intangible assets and other long-term assets (- as gains) | -50,250.47                        | 1,092,216.53   |
| Finance expenses (- as gains)   | 431,074.76                        | 5,953,366.10   |
| Investment losses (- as gains)  | -2,656,495.90                     | -6,600,246.57  |
| Decrease in deferred income tax assets (- as increase)  | 597,751.77                        | -66,201.15   |
| Increase in deferred income tax liabilities (- as decrease)                                   | -437,212.88                       | -437,212.88  |
| Decrease in inventories (- as increase)   | 18,283,551.08                     | -6,676,601.80  |
| Decrease in operational receivables (- as increase)   | -135,334,931.58                   | 17,448,551.99  |
| Increase in operational payables (- as decrease)  | 46,495,728.60                     | -50,864,184.03                                       |
| Net cash flows from operating activities  | <b>2,150,169.85</b>               | <b>26,207,604.08</b>                                 |
| 2) Significant investment and financing activities not related to cash receipts and payments: | -                                 | -  |
| 3) Net change in cash and cash equivalents:   |                                   |  |
| Cash at the end of the period   | 179,525,825.77                    | 465,970,848.35                                       |
| Less: Cash at the beginning of the period   | 486,048,673.31                    | 742,857,761.48                                       |
| Net increase in cash and cash equivalents   | <b>-306,522,847.54</b>            | <b>-276,886,913.13</b>                               |

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

| Item  | Balance at the end<br>of the period | Balance at the<br>beginning of<br>the period |
|---|-------------------------------------|--|
| 1) Cash   | 179,525,825.77                      | 486,048,673.31                               |
| Including: Cash on hand                         | 150,301.65                          | 109,919.43                                   |
| Bank deposit readily available                  | 179,375,524.12                      | 485,938,753.88                               |
| 2) Closing balance of cash and cash equivalents | <b>179,525,825.77</b>               | 486,048,673.31                               |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

The transferred endorsed bank acceptance bill which do not involve in cash receipt and payment during the period amounted to RMB267,874,380.08, among which, bills payable amounted to RMB244,086,058.38 and the payment for the purchase of long-term assets such as fixed assets amounted to RMB23,788,321.70.

Closing balance of cash and cash equivalents in the statement of cash flows for the period of January to June 2016 was RMB179,525,825.77 and closing balance of cash on hand and at bank in the balance sheet as at 30 June 2016 was RMB191,832,858.81. The difference of RMB12,307,033.04 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 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.

### (4) Others

#### 1. Assets with restrictions in ownership or use rights

| Item              | Carrying amount<br>at the end<br>of the period | Reason for<br>restriction |
|-------------------|--|---------------------------|
| Monetary funds    | 12,307,033.04                                  | Security deposits         |
| Bills receivable  | 35,846,793.48                                  | Pledge                    |
| Fixed assets      | 5,091,229.30                                   | Charge                    |
| Intangible assets | 3,323,297.73                                   | Charge                    |
| Total             | 56,568,353.55                                  |                           |

#### 2. Monetary items in foreign currencies

| Item                 | Foreign<br>currency balance<br>at the end<br>of the period | Exchange rate | Balance<br>translated into<br>RMB at the end<br>of the period |
|----------------------|--|---------------|---|
| Monetary funds       |  |               |   |
| Including: US Dollar | 5,000.48   | 6.631201      | 33,159.19   |
| Euro                 | 7,217.00   | 7.374999      | 53,225.37   |
| HKD                  | 20,945.29  | 0.85467       | 17,901.31   |
| Swiss Franc          | 55.41  | 6.773         | 375.27  |

#### 3. Net current assets, and total assets less current liabilities

|                                       | Balance at<br>the end<br>of the period | Balance at<br>the beginning<br>of the period |
|---------------------------------------|--|--|
| Net current assets                    | 782,294,658.67                         | 801,511,224.83                               |
| Total assets less current liabilities | 1,514,170,292.32                       | 1,494,721,072.22                             |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (4) Others (continued)

#### 4. Earnings per share

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

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

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

|  | Balance for<br>the current period | Balance for<br>the corresponding<br>period last year |
|--|-----------------------------------|--|
| Earnings   |                                   |  |
| Net profit for the period attributable to the holders of the Company's ordinary shares | <b>38,867,423.38</b>              | 36,109,760.10  |
| Shares   |                                   |  |
| Weighted average of ordinary shares issued by the Company                              | <b>315,857,855.00</b>             | 315,857,855.00                                       |
| Basic earnings per share (RMB)   | <b>0.1231</b>                     | 0.1143   |
| Diluted earnings per share (RMB)   | <b>0.1231</b>                     | 0.1143   |

#### 5. Segment reporting – 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, no further detailed segmental information needs to be disclosed.

## 6. OWNER'S EQUITY IN OTHER ENTITIES

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

#### 1. Particulars of subsidiaries

| Name of subsidiary  | Principal place of business | Place of registration | Nature of business | Percentage of shareholding (%) |          | Method of ownership                           |
|---------------------|-----------------------------|-----------------------|--------------------|--------------------------------|----------|---|
|                     |                             |                       |                    | Direct                         | Indirect |   |
| Hangzhou Shibao     | Zhejiang Hangzhou/PRC       | Zhejiang Hangzhou/PRC | Manufacturing      | 100.00                         |          | Establishment                                 |
| Hangzhou New Shibao | Zhejiang Hangzhou/PRC       | Zhejiang Hangzhou/PRC | Manufacturing      | 70.00                          |          | Establishment                                 |
| Jilin Shibao        | Jilin Siping/PRC            | Jilin Siping/PRC      | Manufacturing      | 100.00                         |          | Establishment                                 |
| Siping Steering     | Jilin Siping/PRC            | Jilin Siping/PRC      | Manufacturing      | 100.00                         |          | Establishment                                 |
| Beijing Autonics    | Beijing/PRC                 | Beijing/PRC           | Manufacturing      | 70.00                          |          | Business combination not under common control |
| Wuhu Sterling       | Anhui Wuhu/PRC              | Anhui Wuhu/PRC        | Manufacturing      | 57.89                          |          | Business combination not under common control |
| ErDOS Sterling      | Inner Mongolia/PRC          | Inner Mongolia/PRC    | Manufacturing      |                                | 57.89    | Business combination not under common control |

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 2. Significant non-wholly owned subsidiaries

| Name of subsidiary  | Percentage of shareholding of minority shareholders | Profit/loss contributed to minority shareholders of the current period | Declared dividends distribution to minority shareholders of the current period | Balance of minority shareholders' equity at the end of the period |
|---------------------|---|--|--|---|
| Hangzhou New Shibao | 30.00%  | 659,380.66   | –  | 758,766.25  |
| Beijing Autonics    | 30.00%  | -22,184.06   | –  | 2,334,618.84  |
| Wuhu Sterling       | 42.11%  | 777,206.01   | –  | 18,199,618.40   |

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

##### (1) Assets and liabilities

| Name of subsidiary  | Current assets | Non-current assets | As at the end of the period |                     |                         | Total liabilities |
|---------------------|----------------|--------------------|-----------------------------|---------------------|-------------------------|-------------------|
|                     |                |                    | Total assets                | Current liabilities | Non-current liabilities |                   |
| Hangzhou New Shibao | 181,469,875.44 | 55,706,235.22      | 237,176,110.66              | 233,049,970.22      | 1,596,919.60            | 234,646,889.82    |
| Beijing Autonics    | 51,733,244.07  | 51,945,957.63      | 103,679,201.70              | 95,064,055.57       | 833,083.36              | 95,897,138.93     |
| Wuhu Sterling       | 100,538,060.25 | 60,478,682.00      | 161,016,742.25              | 113,770,000.09      | 4,027,510.61            | 117,797,510.70    |

| Name of subsidiary  | Current assets | Non-current assets | As at the beginning of the period |                     |                         | Total liabilities |
|---------------------|----------------|--------------------|-----------------------------------|---------------------|-------------------------|-------------------|
|                     |                |                    | Total assets                      | Current liabilities | Non-current liabilities |                   |
| Hangzhou New Shibao | 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    | 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       | 112,805,152.16 | 61,169,214.26      | 173,974,366.42                    | 128,215,876.36      | 4,384,915.16            | 132,600,791.52    |

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

| Name of subsidiary  | Balance for the current period |              |                            |                                      | Balance for the corresponding period last year |               |                            |                                      |
|---------------------|--------------------------------|--------------|----------------------------|--------------------------------------|--|---------------|----------------------------|--------------------------------------|
|                     | Revenue                        | Net profit   | Total comprehensive income | Cash flows from operating activities | Revenue  | Net profit    | Total comprehensive income | Cash flows from operating activities |
| Hangzhou New Shibao | 100,019,649.17                 | 2,197,935.53 | 2,197,935.53               | -1,115,509.70                        | 39,154,996.50                                  | -5,896,216.76 | -5,896,216.76              | 3,792,314.57                         |
| Beijing Autonics    | 26,308,359.39                  | -73,946.87   | -73,946.87                 | 9,663,640.59                         | 18,070,911.70                                  | 151,626.59    | 151,626.59                 | 300,035.00                           |
| Wuhu Sterling       | 57,931,289.88                  | 1,845,656.65 | 1,845,656.65               | 12,603,532.13                        | 49,508,237.23                                  | -269,003.91   | -269,003.91                | 18,117,457.60                        |



# 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>728,671,565.34</b>            | 924,950,976.54                         |
| Including: Cash on hand and at bank | <b>191,832,858.81</b>            | 503,377,298.34                         |
| Notes receivable                    | <b>155,035,076.48</b>            | 92,274,842.99                          |
| Accounts receivable                 | <b>378,633,551.42</b>            | 326,067,978.19                         |
| Other receivables                   | <b>3,170,078.63</b>              | 3,230,857.02                           |
| Financial liabilities               | <b>388,732,115.12</b>            | 363,849,763.15                         |
| Including: Bank borrowings          | <b>22,180,000.00</b>             | 35,180,000.00                          |
| Notes payable                       | <b>47,376,642.08</b>             | 74,239,657.73                          |
| Accounts payable                    | <b>301,786,726.81</b>            | 233,827,116.38                         |
| Employee benefits payable           | <b>11,981,883.73</b>             | 14,757,240.75                          |
| Interests payable                   | <b>967,308.34</b>                | 991,364.84                             |
| Other payables                      | <b>4,439,554.16</b>              | 4,854,383.45                           |

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

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

### (2) Credit risk

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

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

Since the Company trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As at 30 June 2016, the Group had specific concentration of credit risk as 38.24% (31 December 2015: 43.52%) 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

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## 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 | 191,832,858.81                | -                                | -                   | -                 | 191,832,858.81        |
| Notes receivable         | 155,035,076.48                | -                                | -                   | -                 | 155,035,076.48        |
| Accounts receivable      | 371,414,221.77                | 3,458,295.79                     | 3,468,898.97        | 292,134.89        | 378,633,551.42        |
| Other receivables        | 3,170,078.63                  | -                                | -                   | -                 | 3,170,078.63          |
| Total                    | <u>721,452,235.69</u>         | <u>3,458,295.79</u>              | <u>3,468,898.97</u> | <u>292,134.89</u> | <u>728,671,565.34</u> |

| Item                     | Neither past due nor impaired | Balance at the beginning of the period |                     |                   | Total                 |
|--------------------------|-------------------------------|--|---------------------|-------------------|-----------------------|
|                          |                               | Past due but not impaired              |                     |                   |                       |
|                          |                               | Within 1 year                          | 1-2 years           | Over 2 years      |                       |
| Cash on hand and at bank | 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          |
| Total                    | <u>916,792,088.27</u>         | <u>6,099,459.20</u>                    | <u>1,609,513.43</u> | <u>449,915.64</u> | <u>924,950,976.54</u> |

### (3) Liquidity risk

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

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

### (3) Liquidity risk (continued)

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

| Item                     | Carrying value        | Balance at the end of the period |                       |           |              |
|--------------------------|-----------------------|----------------------------------|-----------------------|-----------|--------------|
|                          |                       | Contractual undiscounted amount  | Within 1 year         | 1-3 years | Over 3 years |
| Cash on hand and at bank | 191,832,858.81        | 191,832,858.81                   | 191,832,858.81        | -         | -            |
| Notes receivable         | 155,035,076.48        | 155,035,076.48                   | 155,035,076.48        | -         | -            |
| Accounts receivable      | 378,633,551.42        | 378,633,551.42                   | 378,633,551.42        | -         | -            |
| Other receivables        | 3,170,078.63          | 3,170,078.63                     | 3,170,078.63          | -         | -            |
| Total                    | <u>728,671,565.34</u> | <u>728,671,565.34</u>            | <u>728,671,565.34</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 | 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> | -         | -            |

#### 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           | 22,180,000.00         | 22,707,741.67                    | 21,380,991.67         | -         | 1,326,750.00        |
| Notes payable             | 47,376,642.08         | 47,376,642.08                    | 47,376,642.08         | -         | -                   |
| Accounts payable          | 301,786,726.81        | 301,786,726.81                   | 301,786,726.81        | -         | -                   |
| Employee benefits payable | 11,981,883.73         | 11,981,883.73                    | 11,981,883.73         | -         | -                   |
| Interest payable          | 967,308.34            | 967,308.34                       | 967,308.34            | -         | -                   |
| Other payables            | 4,439,554.16          | 4,439,554.16                     | 4,439,554.16          | -         | -                   |
| Total                     | <u>388,732,115.12</u> | <u>389,259,856.79</u>            | <u>387,933,106.79</u> | -         | <u>1,326,750.00</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           | 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> |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (4) Market risk

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

#### 1. Interest rate risk

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

#### 2. Foreign exchange risk

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

### (5) Capital risk management

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

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. As at 30 June 2016, the Company's gearing ratio was -11.98% (2015: -44.57%). The calculation is described as follow:

| Item                            | Balance at<br>the end<br>of the period | Balance at<br>the beginning<br>of the period |
|---------------------------------|--|--|
| Total borrowings                | 22,180,000.00                          | 35,180,000.00                                |
| Less: Cash and cash equivalents | 179,525,825.77                         | 486,048,673.31                               |
| Net debt                        | -157,345,825.77                        | -450,868,673.31                              |
| Equity                          | 1,471,157,765.44                       | 1,462,461,724.95                             |
| Total capital                   | 1,313,811,939.67                       | 1,011,593,051.64                             |
| Gearing ratio                   | -11.98%                                | -44.57%                                      |

# NOTES TO THE FINANCIAL STATEMENTS

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## 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### (1) Related parties

#### 1. Parent company

| Name of parent company | Place of registration | Nature of business    | Reregistered capital (RMB0,000) | Shareholding % in the Company | Voting % in the Company |
|------------------------|-----------------------|-----------------------|---------------------------------|-------------------------------|-------------------------|
| Shibao Holding         | Zhejiang Yiwu         | Industrial investment | 5,000.00                        | 47.49                         | 47.49                   |

(Note): On 16 November 2015 and 1 February 2016, Shibao Holding, the controlling shareholder of the Company, pledged 20,000,000 shares of A Share and 10,000,000 shares of A Share respectively out of the shares of the Company held by it (representing 9.5% in aggregate 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 holders of 2015 exchangeable private bonds of Shibao Holding (the actual issue size amounted to RMB400,000,000) 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 and 1 February 2016 respectively 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 29 June 2016, the holders of 2015 exchangeable private bonds of Shibao Holding has implemented the share exchange, pursuant to which bonds in an aggregate amount of RMB400,000,000 were exchanged into 15,384,611 shares of A Share of Zhejiang Shibao. The aforementioned share exchange has resulted in a decrease of 15,384,611 shares of A Share of Zhejiang Shibao held by Shibao Holding from 165,387,223 shares to 150,002,612 shares, with the proportion of the total share capital of the Company decreasing from 52.36% to 47.49%, but Shibao Holding remained as the controlling shareholder of the Company.

As at the date of the approval of these financial statements, Shibao Holding holds 150,002,612 shares of A Share of the Company, and the number of pledged shares is zero.

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 | Commencement date of the guarantee | Expiry date of the guarantee | Guarantee fully fulfilled |
|----------------|-------------------|------------------------------------|------------------------------|---------------------------|
| Shibao Holding | 10,000,000.00     | 2016.06.06                         | 2016.12.06                   | No                        |
| Zhang Shi Quan | 2,000,000.00      | 2016.06.06                         | 2017.06.01                   | No                        |

# NOTES TO THE FINANCIAL STATEMENTS

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

### (2) Related parties transactions (continued)

#### 2. Remuneration/fee of key management

| Item                      | Balance for the current period | Balance for the corresponding period last year |
|---------------------------|--------------------------------|--|
| Directors and Supervisors | 1,537,146.05                   | 1,486,589.87                                   |
| Other key management      | 445,670.69                     | 261,989.98                                     |
| Total                     | 1,982,816.74                   | 1,748,579.85                                   |

### (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     | 900,000.00                       | 10,280,000.00                          |
|               | Hangzhou Shibao     | 8,911,373.20                     | 4,885,519.25                           |
|               | Hangzhou New Shibao | –                                | 1,800,000.00                           |
|               | Jilin Shibao        | 690,000.00                       | 1,790,000.00                           |
|               | Beijing Autonics    | 3,632,045.11                     | 3,073,997.60                           |
| Total         |                     | 14,133,418.31                    | 21,829,516.85                          |

## 9. COMMITMENTS

### (1) 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 | 74,500,035.14                    | 46,521,922.08                          |

# NOTES TO THE FINANCIAL STATEMENTS

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## 10. 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   | Carrying amount |        | Balance at the end of the period |        | Book value    |
|---|-----------------|--------|----------------------------------|--------|---------------|
|   | Amount          | %      | Provision for bad debts          | Amount |               |
| Individually significant amount with bad debt provision on individual basis     | 68,375,300.73   | 99.57  | -                                | -      | 68,375,300.73 |
| Individually insignificant but significant based on credit risk characteristics | 292,979.00      | 0.43   | 292,979.00                       | 100.00 | -             |
| Total   | 68,668,279.73   | 100.00 | 292,979.00                       | 0.43   | 68,375,300.73 |

| Types   | Carrying amount |        | Balance at the beginning of the period |        | Book value    |
|---|-----------------|--------|--|--------|---------------|
|   | Amount          | (%)    | Provision for bad debts                | (%)    |               |
| 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 | -             |
| Total   | 72,727,205.02   | 100.00 | 292,979.00                             | 0.40   | 72,434,226.02 |

##### 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 | Proportion (%) | Carrying amount                        | Provision for bad debts | Proportion (%) |
| Within 1 year | 33,837,931.19                    | -                       | 49.28          | 41,062,465.85                          | -                       | 56.46          |
| 1-2 years     | 34,537,369.54                    | -                       | 50.29          | 31,371,760.17                          | -                       | 43.14          |
| 2-3 years     | -                                | -                       | -              | -                                      | -                       | -              |
| Over 3 years  | 292,979.00                       | 292,979.00              | 0.43           | 292,979.00                             | 292,979.00              | 0.40           |
| Sub-total     | 68,668,279.73                    | 292,979.00              | 100.00         | 72,727,205.02                          | 292,979.00              | 100.00         |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 10. 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 | 68,375,300.73   | –                      | –             | Individual impairment test showed no risk was expected of balance recover |
| Sub-total                                       | 68,375,300.73   | –                      | –             |   |

4) Provision for bad debt by groups

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

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

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

(4) The five largest accounts receivable

| Name   | Carrying amount | Percentage of total accounts receivable (%) | Provision for bad debts |
|--|-----------------|---|-------------------------|
| Wuhu Sterling  | 68,375,300.73   | 99.57                                       | –                       |
| Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd.<br>(贛州江環汽車製造有限公司)              | 125,000.00      | 0.18  | 125,000.00              |
| Hubei San Huan Special Vehicle Co., Ltd.<br>(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<br>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.<br>(洛陽彪馬車輛有限公司)                                    | 32,770.00       | 0.05  | 32,770.00               |
| Sub-total  | 68,612,470.73   | 99.91                                       | 237,170.00              |



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 10. 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   | Carrying amount       |               | Balance at the end of the period  |          | Book value            |
|---|-----------------------|---------------|-----------------------------------|----------|-----------------------|
|   | Amount                | %             | Provision for bad debts<br>Amount | %        |                       |
| Individually significant amount with bad debt provision on individual basis     | 351,545,701.75        | 99.87         | -                                 | -        | 351,545,701.75        |
| Individually insignificant but significant based on credit risk characteristics | 223,106.22            | 0.06          | -                                 | -        | 223,106.22            |
| Individually insignificant amount with bad debt provision on individual basis   | 231,999.23            | 0.07          | -                                 | -        | 231,999.23            |
| <b>Total</b>  | <b>352,000,807.20</b> | <b>100.00</b> | <b>-</b>                          | <b>-</b> | <b>352,000,807.20</b> |

| Types   | Carrying amount       |               | Balance at the beginning of the period |          | Book value            |
|---|-----------------------|---------------|--|----------|-----------------------|
|   | Amount                | %             | Provision for bad debts<br>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>-</b>                               | <b>-</b> | <b>307,295,344.70</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<br>Amount        | Proportion (%) | Provision for<br>bad debts | Carrying amount<br>Amount              | Proportion (%) | Provision for<br>bad debts |
| Within 1 year    | 146,681,583.65                   | 41.67          | -                          | 103,028,355.77                         | 33.53          | -                          |
| 1-2 years        | 99,289,086.73                    | 28.21          | -                          | 54,823,000.60                          | 17.84          | -                          |
| 2-3 years        | 32,952,856.27                    | 9.36           | -                          | 51,899,483.91                          | 16.89          | -                          |
| Over 3 years     | 73,077,280.55                    | 20.76          | -                          | 97,544,504.42                          | 31.74          | -                          |
| <b>Sub-total</b> | <b>352,000,807.20</b>            | <b>100.00</b>  | <b>-</b>                   | <b>307,295,344.70</b>                  | <b>100.00</b>  | <b>-</b>                   |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 10. 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 | 351,545,701.75  | –                      | –             | Individual impairment test showed no risk was expected of balance recover |
| Sub-total   | 351,545,701.75  | –                      | –             |   |

4) Provision for bad debt by groups

| Group   | Carrying amount | Provision (%) | Provision for bad debts |
|---|-----------------|---------------|-------------------------|
| Individually insignificant but significant based on credit risk characteristics | 223,106.22      | –             | –                       |
| Sub-total   | 223,106.22      | –             | –                       |

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 | 231,999.23      | –                      | –             | Individual impairment test showed no risk was expected of balance recover |
| Sub-total  | 231,999.23      | –                      | –             |   |

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 10. 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)

##### (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          | 351,545,701.75                   | 306,908,110.49                         |
| Security deposits         | 197,059.00                       | 197,059.00                             |
| Imprest                   | 107,383.29                       | 91,925.31                              |
| Others                    | 150,663.16                       | 98,249.90                              |
| Sub-total                 | 352,000,807.20                   | 307,295,344.70                         |

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

| Name                | Nature of receivables | Carrying amount | Age  | Percentage to the balance of other receivables (%) | Provision for bad debts |
|---------------------|-----------------------|-----------------|--|--|-------------------------|
| Jilin Shibao        | Current accounts      | 114,290,000.00  | Within 1 year, 1-2 years                             | 32.47  | -                       |
| Hangzhou New Shibao | Current accounts      | 78,216,016.80   | Within 1 year, 1-2 years,<br>2-3 years, Over 3 years | 22.22  | -                       |
| Beijing Autonics    | Current accounts      | 73,900,000.00   | Within 1 year, 1-2 years,<br>2-3 years, Over 3 years | 20.99  | -                       |
| Siping Steering     | Current accounts      | 58,724,183.96   | Within 1 year  | 16.68  | -                       |
| Hangzhou Shibao     | Current accounts      | 26,415,500.99   | Within 1 year, 1-2 years,<br>2-3 years               | 7.51   | -                       |
| Sub-total           |                       | 351,545,701.75  |  | 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 |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (1) Notes to the balance sheet of the parent company (continued)

#### 3. Long-term equity investments (continued)

##### (2) Investment in subsidiaries

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

### (2) Notes to the income statement of the parent company

#### 1. Revenue/cost of sales

| Item                        | Balance for the current period |               | Balance for the corresponding period last year |               |
|-----------------------------|--------------------------------|---------------|--|---------------|
|                             | Revenue                        | Cost          | Revenue  | Cost          |
| Revenue from main business  | 18,811,327.55                  | 12,285,768.64 | 22,214,987.04                                  | 15,044,502.24 |
| Revenue from other business | 271,838.04                     | 199,774.27    | 64,477.03                                      | 54,586.43     |
| Total                       | 19,083,165.59                  | 12,485,542.91 | 22,279,464.07                                  | 15,099,088.67 |

#### 2. Investment gains

| Item   | Balance for the current period | Balance for the corresponding period last year |
|--|--------------------------------|--|
| Investment gains from long-term equity investments under cost method of accounting | 40,000,000.00                  | 30,000,000.00                                  |
| Gains from bank wealth management products   | 1,377,715.08                   | 4,981,917.80                                   |
| Total  | 41,377,715.08                  | 34,981,917.80                                  |

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2016 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 11. OTHER IMPORTANT MATTERS

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

| Item  | Amount       |
|---|--------------|
| Gain or loss on disposal of non-current assets  | 50,250.47    |
| Government grants (except for government grants which are closely related to the Company's ordinary business and conforms with the national policies as well as standard amount and quantities or continuous government grants) recognized in gains or losses during the current period | 3,723,737.71 |
| Gain or loss on entrusted investment or asset management  | 2,656,495.90 |
| Other non-operating income and expenses apart from those stated above   | -11,669.18   |
| Less: Effect on enterprise income tax   | 623,975.08   |
| Effect on interest of minority shareholders   | 339,693.68   |
| Total   | 5,455,146.14 |

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

| Profit for the reporting period  | Weighted average return on net assets ratio (%) | Earnings per share (RMB/share) |                            |
|--|---|--------------------------------|----------------------------|
|  |   | Basic earnings per share       | Diluted earnings per share |
| Net profits attributable to the ordinary shareholders of the Company   | 2.66  | 0.1231                         | 0.1231                     |
| Net profits after deducting non-recurring profit/loss attributable to the ordinary shareholders of the Company | 2.29  | 0.1058                         | 0.1058                     |

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF CHINA AUTOMOBILE INDUSTRY

From January to June 2016, production and sales volume of China automobile industry was 12,892,000 units and 12,830,000 units respectively, representing an increase of 6.50% and 8.10% respectively as compared with 2015. Production and sales of passenger cars were 11,099,000 units and 11,042,000 units respectively, representing an increase of 7.30% and 9.20% respectively as compared with 2015. Production and sales of commercial vehicles were 1,793,000 units and 1,787,000 units respectively, representing an increase of 1.50% and 1.90% respectively as compared with 2015.

From January to June 2016, sales volume of China-brand passenger cars was 4,735,000 units, representing an increase of 12.80% as compared with 2015. Their sales represented 42.90% of the total sales of passenger cars, representing an increase of 1.40% as compared with 2015. Among commercial vehicles, production and sales volume of buses decreased by 9.40% and 9.50% respectively as compared with 2015; production and sales volume of trucks increased by 3.60% and 4.00% respectively as compared with 2015. Production and sales volume of new energy cars was 177,000 units and 170,000 units respectively, representing an increase of 125.00% and 126.90% respectively as compared with 2015.

From January to June 2016, the top ten automaker groups sold 11,407,000 units of automobiles, representing an increase of 7.20% as compared with 2015. Their sales represented 88.90% of the total sales of automobiles, representing a decrease of 0.80% as compared with 2015.

## ANALYSIS OF MAIN BUSINESS

Change in major financial information of the Company during the reporting period:

|   | Jan-Jun 2016    | Jan-Jun 2015    | Change   |
|---|-----------------|-----------------|----------|
| Revenue                                   | 531,577,028.72  | 442,723,463.64  | 20.07%   |
| Cost of sales                             | 408,626,363.05  | 326,123,440.42  | 25.30%   |
| Selling expenses                          | 27,285,116.63   | 24,904,879.91   | 9.56%    |
| General and administrative expenses       | 51,478,217.09   | 51,520,842.49   | -0.08%   |
| Financial expenses                        | -1,159,919.59   | 4,933,494.25    | -123.51% |
| Income tax expenses                       | 8,203,729.06    | 6,863,903.42    | 19.52%   |
| Research and development expenses         | 17,930,229.53   | 16,481,132.68   | 8.79%    |
| Net cash flow from operating activities   | 2,150,169.85    | 26,207,604.08   | -91.80%  |
| Net cash flow from investing activities   | -295,217,886.13 | -227,666,779.76 | 29.67%   |
| Net cash flow from financing activities   | -13,462,833.31  | -75,077,107.57  | -82.07%  |
| Net increase of cash and cash equivalents | -306,522,847.54 | -276,886,913.13 | 10.70%   |

During the reporting period, benefitted from the significant increase in sales of the Company's electric power steering products and the continuous expansion in sales of hydraulic power rack-and-pinion steering gears, the Company recorded a revenue of RMB531,577,028.72, representing an increase of 20.07% as compared with the corresponding period last year.

During the reporting period, the gross profit of the Company's main business increased by RMB5,428,079.50 as compared with the corresponding period last year. The gross profit margin of the Company's main business was 22.72% (corresponding period of 2015: 25.98%). The decrease in the gross profit margin of the Company was mainly due to the decline in the selling price of certain old products entering into their mature stage and the significant increase in the investment on new product development, including the research and development, tests and trial assembly of smart steering system applicable to self-driving vehicles.

During the reporting period, the Company's selling expenses was RMB27,285,116.63, representing an increase of 9.56% as compared with the corresponding period last year. Increase in selling expenses was mainly due to the increase in the provision made for warranty expenses as a result of the expansion of business scale. The Company's general and administrative expenses were RMB51,478,217.09, which is basically the same as that of the corresponding period last year. Among which, research and development expenses still maintained an upward trend while professional service fee saw a significant decrease. The Company's financial expenses were RMB-1,159,919.59, representing a decrease of 123.51% as compared with the corresponding period last year. Decrease in financial expenses was mainly due to a decrease in bank borrowings resulted in decrease of interest expenses.

# MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Company's research and development expenses was RMB17,930,229.53, representing an increase of 8.79% as compared with the corresponding period last year. The Company's research and development expenses was used in the research and development and testing of automotive steering system related new technologies and new manufacturing processes. Strong research and development capacity is one of the core competencies of the Company, which continuously helps the Company to acquire new businesses and positions the Company to a leading edge of the industry.

In view of the above, the Company recorded a net profit attributable to shareholders of the listed company of RMB38,867,423.38, representing an increase of 7.64% as compared with the corresponding period last year.

During the reporting period, the Company's net cash flow from operating activities was RMB2,150,169.85, decreased by 91.80% as compared with the corresponding period last year, which was mainly due to the decrease in the amount received from bank acceptance bills held-to-maturity for sales of goods; net cash outflow from investing activities was RMB295,217,886.13, increased by 29.67% as compared with the corresponding period last year, which was mainly due to the combined effects of the increase in the portion of idle proceeds used for purchasing wealth management product from banks and the increase in cash paid for purchase of equipment during the current period; net cash outflow from financing activities was RMB13,462,833.31, decreased by 82.07% as compared with the corresponding period last year, which was mainly due to the increase in bank borrowings received during the current period as compared with the corresponding period last year and the decrease in repayment of bank borrowings as compared with the corresponding period last year.

In view of the above, the Company recorded a net decrease of cash and cash equivalents of RMB306,522,847.54, increased by 10.70% as compared with the corresponding period last year.

Breakdown of main business during the reporting period:

|   | Revenue        | Cost of sales  | Gross margin | As compared to the corresponding period last year |                         |                        |
|---|----------------|----------------|--------------|---|-------------------------|------------------------|
|   |                |                |              | Change of revenue                                 | Change of cost of sales | Change of gross margin |
| <b>By sectors</b>                                   |                |                |              |   |                         |                        |
| Automotive components and spare parts manufacturing | 527,243,673.19 | 407,439,879.99 | 22.72%       | 19.74%  | 25.00%                  | -3.26%                 |
| <b>By products</b>                                  |                |                |              |   |                         |                        |
| Steering system and parts                           | 501,792,849.63 | 387,747,515.60 | 22.73%       | 21.44%  | 26.88%                  | -3.31%                 |

## FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2016, the amount of total loans and borrowings was RMB22,180,000.00 (31 December 2015: RMB35,180,000.00). Total loans and borrowings decreased by RMB13,000,000.00 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 RMB20,800,000.00 (31 December 2015: RMB33,800,000.00), representing a share of 93.78% (31 December 2015: 96.08%) in total loans and borrowings. Loans and borrowings at fixed interest rates amounted to RMB13,380,000.00 (31 December 2015: RMB26,380,000.00).

The Company has issued 38.2 million RMB ordinary shares (A Shares) by way of private placement at issue price of RMB18.46 per Share, which raised a gross proceeds of RMB705,172,000 and a net proceeds of RMB658,162,900. On 11 December 2014, the proceeds were credited into the fund regulatory account of the Company. The proceeds will be used on projects. As at 31 December 2015, the accumulated amount of the proceeds actually utilized by the Company RMB100,609,400. From January to June 2016, the amount of the proceeds actually utilized by the Company was RMB45,473,500, and RMB200,000,000 was used for temporary supplement of working capital. As at 30 June 2016, the accumulated amount of the proceeds actually utilized by the Company RMB146,082,900.

# MANAGEMENT DISCUSSION AND ANALYSIS

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 shareholders' equity plus net debt. At the end of the reporting period, the Company's gearing ratio was 11.98% (2015: 44.57%).

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

## OUTLOOK

During the reporting period, the increase in the Company's production capacity of hydraulic power rack-and-pinion steering gears for passenger cars has facilitated continuous expansion in sales scale. Meanwhile, as the Company insisted on adhering to high technological and quality requirements, the Company's electric power steering products have established a sound reputation in the industry, which has led to a significant increase in sales.

Zhejiang Shibao lives up to its role of enhancing safety and comfortability for driving. The Company is committed to providing world leading automaker groups with safe, energy-saving, light-weight and new-energy automotive steering system. During the reporting period, the Company has accelerated its investment in new technology and established cooperation with various automobile manufacturers and internet enterprises in the PRC with a view to develop a smart steering system applicable to self-driving vehicles.

### Forecast on the operating results between January and September 2016

|  |   |
|--|---|
| Change in net profit attributable to shareholders of the listed issuer between January and September 2016                              | 0% To 20.00%  |
| Range of change in net profit attributable to shareholders of the listed issuer between January and September 2016 (RMB ten thousands) | 4,841.68 To 5,810.02  |
| Net profit attributable to shareholders of the listed issuer between January and September 2015 (RMB ten thousands)                    | 4,841.68  |
| Illustrations on reasons attributable to the movements in results  | Increase in forecast profit of the Company will be mainly due to an increase of business scale, a decrease of financial expenses and an increase of gain on wealth management products. |



# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS ON CORE COMPETENCE

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, various software copyrights associated with R&D on 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 and testing on steering technology associated with intelligent driving.
- 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. The Company is a qualified supplier of Daimler Group in connection with the global sourcing of chassis for commercial vehicle and steering gears.
- 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.
- 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.

## PLEDGE OF ASSETS

As at 30 June 2016, save for the assets with restricted ownership rights and rights in use as set out on page 61 of this 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 RMB56,568,353.55, including secured notes receivable of RMB35,846,793.48, representing the security for the issuance of the bank acceptance bills, and restricted monetary fund of RMB12,307,033.04, representing the guarantee deposits for the issuance of the bank acceptance bills.

## MATERIAL ACQUISITIONS AND DISPOSALS

During the period under review, the Group did not have any material acquisition and disposal concerning subsidiaries and associates.

## FOREIGN CURRENCY EXPOSURE

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

## CAPITAL COMMITMENTS

As at 30 June 2016, apart from material commitments set out on page 69 of this report, the Group had no other material capital commitments.

## CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no material contingent liabilities.

## EMPLOYEE AND REMUNERATION

The Group had a total of 1,778 employees as at 30 June 2016, and total staff salaries and welfares costs amounted to RMB68,637,580.05 during the reporting period. The Group provided substantial remuneration benefits to employees in accordance with market practices, and provided retirement benefits in accordance with the related laws of the PRC.

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

## INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2016 (30 June 2015: Nil).

## CORPORATE GOVERNANCE

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

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

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

Under code provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Zhang Shi Zhong (non-executive Director), Mr. Zhang Hong Zhi (independent non-executive Director) and Mr. Guo Kong Hui (independent non-executive Director) were unable to attend the Company's annual general meeting held on 21 June 2016 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 period under review, except that the spouse of Mr. Zhang Shi Zhong, non-executive Director, acquired 5,000 A Shares on 19 January 2016 without notifying the chairman of the Company. The Company has provided training to the Directors and shall iterate and remind the Directors from time to time in respect of the relevant procedures, rules and requirements in relation to Directors' dealings in order to ensure the Directors' compliance.

## REMUNERATION COMMITTEE

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

The Remuneration Committee consists of three members, namely Mr. Shum Shing Kei (Chairman of the Remuneration Committee) and Mr. Zhang Hong Zhi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director).

## NOMINATION COMMITTEE

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

The Nomination Committee consists of three members, namely Mr. Zhang Hong Zhi (Chairman of the Nomination Committee) and Mr. Shum Shing Kei (both are independent non-executive Directors), and Ms. Zhang Lan Jun (executive Director).

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## AUDIT COMMITTEE

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

The Audit Committee has three members, namely Mr. Shum Shing Kei (Chairman of the Audit Committee) and Mr. Zhang Hong Zhi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director).

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

## CHANGES IN DIRECTORS' AND SUPERVISORS' INFORMATION

For the six months ended 30 June 2016, there was no change to the information relating to the Directors and Supervisors which shall be disclosed under the Rule 13.51B(1) of the Listing Rules.

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

As at 30 June 2016, the interests and short positions of each Director, Supervisor and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be entered in the register pursuant to Section 352 of the SFO, or interests or short positions which are required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange were as follows:

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

| Name of Director   | Capacity                                    | Number of A Shares | Approximate percentage of shareholding in same class of shares | Approximate percentage in the Company's total issued share capital |
|--------------------|---|--------------------|--|--|
| Mr. Zhang Shi Quan | Interest in a controlled corporation (Note) | 150,002,612        | 65.46%   | 47.49%   |
|                    | 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 150,002,612 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 150,002,612 A Shares held by Shibao Holding.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

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

| Name of Director    | Capacity         | Contribution in the registered capital | Approximate percentage in the registered capital of Shibao Holding |
|---------------------|------------------|--|--|
| Mr. Zhang           | Beneficial owner | RMB20,000,000                          | 40%  |
| Mr. Zhang Bao Yi    | Beneficial owner | RMB10,000,000                          | 20%  |
| Mr. Tang Hao Han    | Beneficial owner | RMB10,000,000                          | 20%  |
| Ms. Zhang Lan Jun   | Beneficial owner | RMB7,500,000                           | 15%  |
| Mr. Zhang Shi Zhong | Beneficial owner | RMB2,500,000                           | 5%   |

Note: Shibao Holding holds 150,002,612 A Shares representing 65.46% of the A Shares in issue and 47.49% of the total issued share capital of the Company and accordingly is an associated corporation of the Company.

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

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

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

Save as disclosed above, as at 30 June 2016, the Directors are not aware of any Director, Supervisor and chief executive of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to the Model Code to be notified to the Company and the Hong Kong Stock Exchange.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, so far as is known to the Directors, the following persons (other than the Directors, Supervisors and chief executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions and short positions in the shares of the Company:

| Name of Shareholder              | Capacity  | Number and class of Shares                 | Approximate percentage of shareholding in same class of Shares | Approximate percentage in the Company's total issued share capital |
|----------------------------------|---|--|--|--|
| Shibao Holding                   | Beneficial owner<br>(Note 1 and 2)                | 150,002,612<br>A Shares<br>(Long position) | 65.46%   | 47.49%   |
| Mr. Zhang                        | Interest in controlled corporation (Note 1 and 2) | 150,002,612<br>A Shares<br>(Long position) | 65.46%   | 47.49%   |
|                                  | Beneficial owner (Note 2)                         | 10,556,632<br>A Shares<br>(Long position)  | 4.61%  | 3.34%  |
| Deutsche Bank Aktiengesellschaft | Beneficial owner                                  | 4,370,920<br>H Shares<br>(Long position)   | 5.04%  | 1.38%  |
|                                  |   | 356,000<br>H Shares<br>(Short position)    | 0.41%  | 0.11%  |

Note:

- (1) As at 30 June 2016, Shibao Holding held 150,002,612 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 150,002,612 A Shares of the Company held by Shibao Holding.
- (2) Mr. Zhang's interest in these 160,559,244 A Shares of the Company, including 150,002,612 A Shares held by Shibao Holding and 10,556,632 A Shares directly held by himself, are also disclosed in the paragraph headed "Disclosure of the Interests and Short Positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its associated corporations". These 150,002,612 A Shares held by Shibao Holding represent the same interest and therefore duplicate amongst Shibao Holding and Mr. Zhang.

Save as disclosed above, as at 30 June 2016, 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 required to be kept under Section 336 of the SFO.

## ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

During the period 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 period ended 30 June 2016, the Company has not implemented any share option scheme.

## COMPETING INTERESTS

During the period 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.

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

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive right under the Articles of Association and the laws of the PRC, the place of jurisdiction where the Company established, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

## PUBLIC FLOAT

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

# GLOSSARY

|   |  |
|---|--|
| “A Share(s)”  | Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued in China and listed on Shenzhen Stock Exchange, and are subscribed for and traded in RMB   |
| “Anhui Changshan”   | Anhui Changshan Auto Parts Manufacturing Co., Ltd., a subsidiary controlled by Shibao Holding  |
| “Annual General Meeting”  | The 2015 annual general meeting of the Company held on 21 June 2016  |
| “Articles of Association”   | Articles of association of the Company   |
| “Audit Committee”   | Audit committee of the Company   |
| “Beijing Autonics”  | Beijing Autonics Technology Co., Ltd., a subsidiary controlled by the Company  |
| “Board”   | Board of Directors of the Company  |
| “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   |
| “Erdos Sterling”  | Erdos Sterling Steering System Co., Ltd., a wholly-owned subsidiary of Wuhu Sterling   |
| “Group”   | The Company and its subsidiaries   |
| “H Share(s)”  | Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued overseas and listed on Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars  |
| “Hangzhou New Shibao”   | Hangzhou New Shibao Electric Power Steering Co., Ltd., a subsidiary controlled by the Company  |
| “Hangzhou Shibao”   | Hangzhou Shibao Auto Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company   |



# GLOSSARY

|  |   |
|--|---|
| “Hong Kong Stock Exchange”   | The Stock Exchange of Hong Kong Limited   |
| “Jilin Shibao”   | Jilin Shibao Machinery Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company  |
| “Listing Rules”  | The Rules Governing the Listing of Securities on Hong Kong Stock Exchange   |
| “Model Code”   | Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules of Hong Kong Stock Exchange |
| “Mr. Zhang”  | Mr. Zhang Shi Quan  |
| “Nomination Committee”   | Nomination committee of the Company   |
| “PRC or China or Mainland China”   | People’s Republic of China  |
| “Remuneration Committee”   | Remuneration committee of the Company   |
| “Reporting Period or This Period”  | 1 January 2016 to 30 June 2016  |
| “RMB”  | Renminbi  |
| “SFO”  | Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong  |
| “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 Zhejiang 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   |