



# 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

# STEERING

the **FUTURE**

Interim Report 2017



\* For identification purposes only

# CONTENTS

Corporate Information	2
Key Accounting Information and Financial Indicators	5
Unaudited Interim Financial Statements	
Consolidated Balance Sheet	6
Balance Sheet of the Parent Company	8
Consolidated Income Statement	9
Income Statement of the Parent Company	10
Consolidated Statement of Cash Flows	11
Statement of Cash Flows of the Parent Company	12
Consolidated Statement of Changes in Equity	13
Statement of Changes in Equity of the Parent Company	14
Notes to the Financial Statements	15
Discussion and Analysis of Operations	75
Corporate Governance and Other Information	80
Glossary	85



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

\* For identification only

# CORPORATE INFORMATION

<b>Secretary of the Board</b>	Ms. Liu Xiao Ping (劉曉平)
<b>Company Secretary</b>	Ms. Huen Lai Chun (禰麗珍)
<b>Authorised Representatives</b>	Ms. Zhang Lan Jun (張蘭君) Ms. Huen Lai Chun (禰麗珍)
<b>Registered Office</b>	No. 1, Shuanglin Road Fotang Town Yiwu Zhejiang Province China (Post code: 322002)
<b>Principal Place of Business in Hong Kong</b>	Room 1204 C C Wu Building 302-308 Hennessy Road Wanchai Hong Kong
<b>Legal Advisers</b>	<i>as to PRC law</i> King & Wood Mallesons Shanghai Office 17th Floor, One ICC 999 Middle Huaihai Road Xuhui District, Shanghai China
<b>Auditors</b>	Pan-China Certified Public Accountants LLP 4th-10th Floor Xinhu Commercial Tower No. 128 Xixi Road Hangzhou, Zhejiang Province China
<b>Hong Kong H Share Registrar and Transfer Office</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai 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 RMB</b>	Corresponding period of last year RMB	<b>Change</b>
Revenue	<b>546,225,847.81</b>	531,577,028.72	2.76%
Net profit attributable to shareholders of the listed company	<b>39,715,087.12</b>	38,867,423.38	2.18%
Net profit after non-recurring gains and losses attributable to shareholders of the listed company	<b>27,339,974.12</b>	33,412,277.24	-18.17%
Net cash flows from operating activities	<b>-15,285,387.86</b>	2,150,169.85	-810.89%
Basic earnings per share (RMB/Share)	<b>0.1257</b>	0.1231	2.11%
Diluted earnings per share (RMB/Share)	<b>0.1257</b>	0.1231	2.11%
Weighted average return on net assets (%)	<b>2.66%</b>	2.66%	0.00%

	<b>At the end of the Reporting Period RMB</b>	At the end of last year RMB	<b>Change</b>
Total assets	<b>2,035,908,181.20</b>	2,074,741,559.47	-1.87%
Net assets attributable to shareholders of the listed company	<b>1,481,639,062.02</b>	1,473,509,760.40	0.55%

# 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 2017, together with the comparative figures for the corresponding period in 2016. 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 2017 | (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	179,235,249.59	145,160,290.11
Notes receivable	136,542,768.42	162,714,933.93
Accounts receivable	410,536,051.19	398,849,055.72
Prepayments	4,836,856.15	4,851,250.24
Other receivables	7,091,599.04	6,244,280.21
Inventories	260,376,818.07	244,998,559.78
Other current assets	226,386,903.01	316,808,874.28
Total current assets	<u>1,225,006,245.47</u>	<u>1,279,627,244.27</u>
<b>Non-current Assets:</b>		
Fixed assets	579,182,816.76	599,101,741.36
Construction in progress	81,293,266.90	56,498,367.41
Intangible assets	100,979,545.39	105,682,338.89
Goodwill	4,694,482.34	4,694,482.34
Deferred income tax assets	2,988,658.46	4,238,146.41
Other non-current assets	41,763,165.88	24,899,238.79
Total non-current assets	<u>810,901,935.73</u>	<u>795,114,315.20</u>
<b>Total Assets</b>	<u><u>2,035,908,181.20</u></u>	<u><u>2,074,741,559.47</u></u>
<b>Current Liabilities:</b>		
Notes payable	91,639,132.34	118,716,837.78
Accounts payable	306,847,407.70	340,234,033.23
Receipts in advance	5,166,439.88	5,358,989.68
Staff costs payable	10,758,119.29	18,917,105.69
Tax payable	6,642,286.02	11,124,131.47
Interests payable	920,471.55	917,833.33
Dividend payable	31,585,785.50	-
Other payables	4,537,496.45	5,329,991.89
Other current liabilities	22,181,925.19	26,010,383.35
Total current liabilities	<u>480,279,063.92</u>	<u>526,609,306.42</u>
<b>Non-current Liabilities:</b>		
Long-term borrowings	11,630,000.00	9,630,000.00
Deferred income	37,621,925.70	40,390,847.99
Deferred income tax liabilities	3,806,684.88	4,243,897.76
Total non-current liabilities	<u>53,058,610.58</u>	<u>54,264,745.75</u>
Total liabilities	<u><u>533,337,674.50</u></u>	<u><u>580,874,052.17</u></u>

# CONSOLIDATED BALANCE SHEET

30 June 2017 | (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>Shareholders' Equity:</b>		
Share capital	315,857,855.00	315,857,855.00
Capital reserve	659,036,954.21	659,036,954.21
Surplus reserve	130,760,053.19	130,760,053.19
Retained earnings	375,984,199.62	367,854,898.00
	<hr/>	<hr/>
Equity attributable to shareholders of the parent	1,481,639,062.02	1,473,509,760.40
	<hr/>	<hr/>
Minority interests	20,931,444.68	20,357,746.90
	<hr/>	<hr/>
Total shareholders' equity	1,502,570,506.70	1,493,867,507.30
	<hr/>	<hr/>
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,035,908,181.20</b>	<b>2,074,741,559.47</b>



# BALANCE SHEET OF THE PARENT COMPANY

30 June 2017 | (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	35,423,014.75	12,110,832.88
Notes receivable	1,500,000.00	4,400,000.00
Accounts receivable	64,924,586.22	70,012,874.40
Prepayments	318,312.47	682,763.20
Other receivables	350,067,091.42	316,641,546.93
Inventories	6,825,985.16	8,444,027.38
Other current assets	130,130,659.07	140,000,000.00
Total current assets	589,189,649.09	552,292,044.79
<b>Non-current Assets:</b>		
Long-term receivables	298,000,000.00	298,000,000.00
Long-term equity investments	185,159,214.87	185,159,214.87
Fixed assets	9,915,511.82	8,815,693.86
Construction in progress	29,780,752.09	23,346,967.89
Intangible assets	36,024,237.56	36,954,655.88
Deferred income tax assets	73,244.75	73,244.75
Other non-current assets	6,797,400.00	6,760,000.00
Total non-current assets	565,750,361.09	559,109,777.25
<b>Total Assets</b>	<b>1,154,940,010.18</b>	<b>1,111,401,822.04</b>
<b>Current Liabilities:</b>		
Notes payable	4,190,000.00	2,657,000.00
Accounts payable	8,214,354.86	5,915,799.67
Receipts in advance	1,500.00	1,500.00
Staff costs payable	900,762.74	1,052,768.66
Tax payable	919,618.13	2,062,546.54
Dividend payable	31,585,785.50	–
Other payables	3,571,534.35	3,626,619.80
Other current liabilities	440,000.00	800,000.00
Total current liabilities	49,823,555.58	16,116,234.67
Total liabilities	49,823,555.58	16,116,234.67
<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	69,757,076.15	69,757,076.15
Retained earnings	57,947,682.73	48,116,815.50
Total shareholders' equity	1,105,116,454.60	1,095,285,587.37
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,154,940,010.18</b>	<b>1,111,401,822.04</b>

# CONSOLIDATED INCOME STATEMENT

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
Total revenue	546,225,847.81	531,577,028.72
Including: Revenue	546,225,847.81	531,577,028.72
Total operating costs	512,077,547.08	488,975,092.04
Including: Operating costs	430,712,361.43	408,626,363.05
Business taxes and surcharges	4,104,919.05	1,841,506.05
Selling expenses	28,443,663.40	27,285,116.63
General and administrative expenses	50,639,675.06	51,478,217.09
Financial expenses	100,769.12	-1,159,919.59
Assets impairment losses	-1,923,840.98	903,808.81
Add: Investment gains	4,726,634.21	2,656,495.90
Other gains	7,606,532.29	-
Operating profit	46,481,467.23	45,258,432.58
Add: Non-operating income	108,632.29	4,116,405.78
Including: Gain on disposal of non-current assets	82,559.70	357,307.67
Less: Non-operating expenses	784,026.27	889,283.31
Including: Loss on disposal of non-current assets	661,976.23	307,057.20
Total profit	45,806,073.25	48,485,555.05
Less: Income tax expenses	5,517,288.35	8,203,729.06
Net Profit	40,288,784.90	40,281,825.99
Net profit attributable to shareholders of the parent	39,715,087.12	38,867,423.38
Minority interests	573,697.78	1,414,402.61
Total comprehensive income	40,288,784.90	40,281,825.99
Total comprehensive income attributable to shareholders of the parent	39,715,087.12	38,867,423.38
Total comprehensive income attributable to minority shareholders	573,697.78	1,414,402.61
Earnings per share:		
(1) Basic earnings per share	0.1257	0.1231
(2) Diluted earnings per share	0.1257	0.1231

# INCOME STATEMENT OF THE PARENT COMPANY

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
Revenue	25,368,044.51	19,083,165.59
Less: Operating costs	21,312,468.14	12,485,542.91
Business taxes and surcharges	823,020.89	155,556.47
Selling expenses	201,709.04	88,694.06
General and administrative expenses	4,691,298.74	5,098,312.65
Financial expenses	-1,732,327.58	-2,448,315.68
Add: Investment gains	41,849,167.12	41,377,715.08
Operating profit	41,921,042.40	45,081,090.26
Add: Non-operating income	-	2,430.00
Less: Non-operating expenses	3,550.00	16,868.91
Total profit	41,917,492.40	45,066,651.35
Less: Income tax expenses	500,839.67	1,284,402.27
Net profit	41,416,652.73	43,782,249.08
Total comprehensive income	41,416,652.73	43,782,249.08

# CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	259,376,885.26	237,938,273.16
Return of taxes and levies	6,938,724.30	–
Cash received relating to other operating activities	11,179,458.41	20,522,967.54
Sub-total of cash inflow	277,495,067.97	258,461,240.70
Cash paid for purchase of goods and acceptance of services	136,442,862.31	121,612,607.28
Cash paid to and on behalf of employees	84,146,095.95	71,412,937.07
Payment of taxes and levies	30,314,340.68	23,254,860.32
Cash paid relating to other operating activities	41,877,156.89	40,030,666.18
Sub-total of cash outflow	292,780,455.83	256,311,070.85
Net cash flows from operating activities	-15,285,387.86	2,150,169.85
2. Cash flows from investing activities:		
Cash received from return of investments	1,011,600,000.00	429,000,000.00
Cash received from investment gains	4,726,634.21	2,656,495.90
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	782,570.49	1,945,894.58
Cash received relating to other investing activities	978,400.00	13,890,000.00
Sub-total of cash inflow	1,018,087,604.70	447,492,390.48
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	46,363,001.21	55,710,276.61
Cash paid for investments	917,000,000.00	687,000,000.00
Sub-total of cash outflow	963,363,001.21	742,710,276.61
Net cash flows from investing activities	54,724,603.49	-295,217,886.13
3. Cash flows from financing activities:		
Cash received from borrowings	132,000,000.00	200,000,000.00
Sub-total of cash inflow	132,000,000.00	200,000,000.00
Cash paid for debt repayments	130,000,000.00	213,000,000.00
Cash paid for distribution of dividend and profit or payment of interest expenses	393,389.33	462,833.31
Cash paid relating to other financing activities	646,649.52	–
Sub-total of cash outflow	131,040,038.85	213,462,833.31
Net cash flows from financing activities	959,961.15	-13,462,833.31
4. Effect of changes in foreign exchange rate on cash and cash equivalents	2,037.96	7,702.05
5. Net increase in cash and cash equivalents	40,401,214.74	-306,522,847.54
Add: Opening balance of cash and cash equivalents	117,330,581.92	486,048,673.31
6. Closing balance of cash and cash equivalents	157,731,796.66	179,525,825.77

# STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	21,138,514.15	21,112,824.05
Cash received relating to other operating activities	3,918,218.40	749,517.12
Sub-total of cash inflow	25,056,732.55	21,862,341.17
Cash paid for purchase of goods and acceptance of services	14,176,117.10	9,600,127.20
Cash paid to and on behalf of employees	4,780,492.65	3,454,139.28
Payment of taxes and levies	3,167,960.48	3,418,871.00
Cash paid relating to other operating activities	25,636,018.18	47,253,024.56
Sub-total of cash outflow	47,760,588.41	63,726,162.04
Net cash flows from operating activities	-22,703,855.86	-41,863,820.87
2. Cash flows from investing activities:		
Cash received from return of investments	260,000,000.00	126,000,000.00
Cash received from investment gains	41,849,167.12	41,377,715.08
Cash received relating to other investing activities	70,000,000.00	-
Sub-total of cash inflow	371,849,167.12	167,377,715.08
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	5,472,599.03	4,675,942.74
Cash paid for investments	250,000,000.00	264,000,000.00
Cash paid relating to other investing activities	70,000,000.00	-
Sub-total of cash outflow	325,472,599.03	268,675,942.74
Net cash flows from investing activities	46,376,568.09	-101,298,227.66
3. Cash flows from financing activities:		
Cash received from borrowings	130,000,000.00	180,000,000.00
Cash received relating to other financing activities	-	70,000,000.00
Sub-total of cash inflow	130,000,000.00	250,000,000.00
Cash paid for debt repayments	130,000,000.00	178,000,000.00
Cash paid for distribution of dividend and profit or payment of interest expenses	218,780.84	272,116.65
Cash paid relating to other financing activities	646,649.52	70,000,000.00
Sub-total of cash outflow	130,865,430.36	248,272,116.65
Net cash flows from financing activities	-865,430.36	1,727,883.35
4. Effect of changes in foreign exchange rate on cash and cash equivalents	-	354.87
5. Net increase in cash and cash equivalents	22,807,281.87	-141,433,810.31
Add: Opening balance of cash and cash equivalents	11,148,732.88	162,709,790.82
6. Closing balance of cash and cash equivalents	33,956,014.75	21,275,980.51

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Current Period					Total shareholders' equity
	Attributable to shareholders of the parent				Minority interests	
	Share capital	Capital reserve	Surplus reserve	Retained earnings		
1. Balance at the end of last year	315,857,855.00	659,036,954.21	130,760,053.19	367,854,898.00	20,357,746.90	1,493,867,507.30
2. Balance at the beginning of year	315,857,855.00	659,036,954.21	130,760,053.19	367,854,898.00	20,357,746.90	1,493,867,507.30
3. Increase/decrease during the period ("-" as decrease)	-	-	-	8,129,301.62	573,697.78	8,702,999.40
(1) Total comprehensive income	-	-	-	39,715,087.12	573,697.78	40,288,784.90
(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	<u>315,857,855.00</u>	<u>659,036,954.21</u>	<u>130,760,053.19</u>	<u>375,984,199.62</u>	<u>20,931,444.68</u>	<u>1,502,570,506.70</u>

Item	Last Period					Total shareholders' equity
	Attributable to shareholders of the parent				Minority interests	
	Share capital	Capital reserve	Surplus reserve	Retained earnings		
1. Balance at the end of last year	315,857,855.00	660,012,081.76	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 ("-" as decrease)	-	-	-	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	<u>315,857,855.00</u>	<u>660,012,081.76</u>	<u>125,531,891.62</u>	<u>348,462,933.57</u>	<u>21,293,003.49</u>	<u>1,471,157,765.44</u>

# STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

30 June 2017 | (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	69,757,076.15	48,116,815.50	1,095,285,587.37
2. Balance at the beginning of year	315,857,855.00	661,553,840.72	69,757,076.15	48,116,815.50	1,095,285,587.37
3. Increase/decrease during the period ("-" as decrease)	-	-	-	9,830,867.23	9,830,867.23
(1) Total comprehensive income	-	-	-	41,416,652.73	41,416,652.73
(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>69,757,076.15</u>	<u>57,947,682.73</u>	<u>1,105,116,454.60</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	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 ("-" as decrease)	-	-	-	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>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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. Currently, it holds the business licence with a creditability code (913300001476445210) issued by the Zhejiang Administration Bureau of Industry and Commerce. As at 30 June 2017, the share capital of the Company was RMB315,857,855 divided into a total of 315,857,855 shares (RMB1 for each share). Of which, shares with selling restrictions include 90,611,087 A Shares; shares without selling restrictions include 138,532,768 A Shares and 86,714,000 H Shares. The Company’s Shares were listed on the GEM of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange on 16 May 2006 and 2 November 2012, respectively. On 9 March 2011, the Company’s Shares were approved to be listed and traded on the Main Board of the Hong Kong Stock Exchange.

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

The financial statements have been adopted for publication at the 26th meeting of the fifth session of the Board of the Company on 18 August 2017.

The Company has included 7 subsidiaries in the consolidated financial statements for This Period, i.e. Hangzhou Shibao, Hangzhou New Shibao, Jilin Shibao, Siping Steering, Beijing Autonics, Wuhu Sterling and Erdos Sterling. Details refer to the note to the financial statements “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 2017 | (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.

The Company has applied the newly revised Accounting Standards for Business Enterprises No. 16 – Government Grants from 12 June 2017 onwards and the newly revised Accounting Standards for Business Enterprises No. 42 – Non-current Assets Held for Sale, Disposal Groups and Discontinued Operation from 28 May 2017 onwards.

### (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 2017 | (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 other comprehensive income.

### (9) Financial Instruments

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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 primary financial assets and financial liabilities

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (10) Receivables

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

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

#### 2. Receivables for which collective bad debt provision is made

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

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

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

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

For other receivables such as bill receivables, 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 2017 | (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) 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 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (12) 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 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (12) 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 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (13) 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

### (14) 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.

### (15) 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 and 2) borrowing costs have been incurred, and 3) activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.
- 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 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (15) 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).

### (16) 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.

### (17) 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 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### **(18) 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 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (18) 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.

### (19) 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.

### (20) 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 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### **(20) 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, 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.

### **(21) 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 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### **(22) Deferred Income Tax Assets and Deferred Income Tax Liabilities**

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

### **(23) 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 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### **(24) 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 income tax assets

As stated in note 3(22) to the financial statements, deferred income 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 income tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. At the balance sheet date, deferred income tax assets unrecognised in prior periods are recognised to the extent that there is obvious evidence that it has become probable that sufficient taxable profit will be available in subsequent periods against which the deductible temporary differences can be utilized. The carrying amount of deferred income tax assets is reviewed at the balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred income tax asset can be utilized. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.

#### 2. Provision for doubtful debt

As stated in note 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.

#### 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.



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 4. Long-term asset impairment

As mentioned in note 3(17) 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.

### (25) Change of Major Accounting Policies

As mentioned in note 3(1) to the financial statements, the Company has applied the newly revised Accounting Standards for Business Enterprises No. 16 – Government Grants from 12 June 2017 onwards and the newly revised Accounting Standards for Business Enterprises No. 42 – Non-current Assets Held for Sale, Disposal Groups and Discontinued Operation from 28 May 2017 onwards.

The application of these two practical accounting standards did not affect the comparative figures in the 2017 half-year financial statements of the Company.

## 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 1), 11%, 6%
Business tax	Amount of taxable turnover	5% (Note 2)
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 1): Hangzhou Shibao, a subsidiary of the Company, enjoys the policy of “exempt, credit, refund” with an export tax refund rate of 17%.

(Note 2): According to the requirement of the document “Cai Shui No. [2016] 36” of the Ministry of Finance and the State Administration of Taxation, effective from 1 May 2016, value-added tax is levied in lieu of business tax on a portion of the business of the Company.

Details of income tax rates:

Name of entity	Income tax rate
Hangzhou Shibao	15%
Hangzhou New Shibao	15%
Beijing Autonics	15%
Wuhu Sterling	15%
Other entities	25%

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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 2014 1st batch filing of High-tech Enterprises of Zhejiang Province” issued by the Leading Group Office of National High-tech Enterprises Recognition and Management (CTP No. [2015] 29), the Company’s subsidiaries, Hangzhou Shibao and Hangzhou New Shibao obtained the High-tech Enterprise Certificates (No. GR201433000685 and GR201433000159 respectively) during 2014, with a valid period from 2014 to 2016. During the Reporting Period, Hangzhou Shibao and Hangzhou New Shibao have applied for re-recognition as a high-tech enterprise. As at this reporting date, the review is in progress. Hangzhou Shibao and Hangzhou New Shibao are adopting a tax rate of 15% for income tax pre-declaration during This Period.
2. 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 Company’s subsidiary, Beijing Autonics obtained the High-tech Enterprise Certificate (No. GR201411000968) during 2015, with a valid period from 2015 to 2017. It is subject to a corporate income tax rate of 15% during This Period.
3. 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 Company’s subsidiary, Wuhu Sterling obtained the High-tech Enterprise Certificate (No. GR201434000449) during 2014, with a valid period from 2014 to 2016. During the Reporting Period, Wuhu Sterling has applied for re-recognition as a high-tech enterprise. As at this reporting date, the review is in progress. Wuhu Sterling is adopting a tax rate of 15% for income tax pre-declaration during This 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	297,264.08	76,798.67
Bank deposits	157,434,532.58	117,253,783.25
Other monetary funds	21,503,452.93	27,829,708.19
Total	179,235,249.59	145,160,290.11
Including: Total monetary funds deposited overseas	–	18,736.34

##### (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 security deposits of RMB21,503,103.58 for the issuance of the bank acceptance bills and interest income of RMB349.35 from security deposits for the issuance of credit letters.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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	136,542,768.42	162,714,933.93
Total	136,542,768.42	162,714,933.93

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

Item	Pledged amount at the end of the period
Bank acceptance bills (Note)	61,131,721.62
Sub-total	61,131,721.62

(Note): 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

Item	Amounts derecognized at the end of the period	Amounts not yet derecognized at the end of the period
Bank acceptance bills	303,291,488.02	–
Sub-total	303,291,488.02	–

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 2017 | (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

Type	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	381,488,627.65	91.88	363,538.60	0.10	381,125,089.05
Individually insignificant but significant based on credit risk characteristics	5,735,461.20	1.38	4,290,011.80	74.80	1,445,449.40
Individually insignificant amount with bad debt provision on individual basis	27,965,512.74	6.74	-	-	27,965,512.74
<b>Total</b>	<b>415,189,601.59</b>	<b>100.00</b>	<b>4,653,550.40</b>	<b>1.12</b>	<b>410,536,051.19</b>

Type	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	369,853,196.95	91.07	2,396,375.19	0.65	367,456,821.76
Individually insignificant but significant based on credit risk characteristics	6,622,522.79	1.63	4,872,609.57	73.58	1,749,913.22
Individually insignificant amount with bad debt provision on individual basis	29,642,320.74	7.30	-	-	29,642,320.74
<b>Total</b>	<b>406,118,040.48</b>	<b>100.00</b>	<b>7,268,984.76</b>	<b>1.79</b>	<b>398,849,055.72</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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) Aging analysis

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
Within 1 year	406,626,864.68	97.94	-	396,577,811.46	97.65	-
1-2 years	3,662,852.84	0.88	478,072.74	4,578,768.38	1.13	2,900,412.69
2-3 years	645,975.45	0.16	617,233.52	1,101,389.87	0.27	810,327.93
Over 3 years	4,253,908.62	1.02	3,558,244.14	3,860,070.77	0.95	3,558,244.14
Sub-total	<u>415,189,601.59</u>	<u>100.00</u>	<u>4,653,550.40</u>	<u>406,118,040.48</u>	<u>100.00</u>	<u>7,268,984.76</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 for bad debts	Provision (%)	Reason for provision
Receivables of sales payment from FAW-Car Co., Ltd. (一汽轎車股份有限公司) and others	379,118,364.09	-	-	Individual impairment test showed no risk was expected of balance recover
Yunnan Lifan Junma Auto Co., Ltd. (雲南力帆駿馬車輛有限公司)	2,370,263.56	363,538.60	15.34	Unrecovered amount expected
Sub-total	<u>381,488,627.65</u>	<u>363,538.60</u>	<u>15.34</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	5,735,461.20	74.80	4,290,011.80
Sub-total	<u>5,735,461.20</u>	<u>74.80</u>	<u>4,290,011.80</u>

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

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Receivables of sales payment from Jilin Chengzhong Automobile Parts Co. Ltd. (吉林誠衆汽車零部件股份有限公司) and others	27,965,512.74	-	-	Individual impairment test showed no risk was expected of balance recover
Sub-total	<u>27,965,512.74</u>	<u>-</u>	<u>-</u>	

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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 was no provision for bad debt in This Period. Provision for recovered or reversed bad debt amounted to RMB2,615,434.36 for This Period, among which, significant amounts of recovered or reversed provisions for bad debt for This Period are as follows:

Name	Recovered or reversed amount	Method of recover
Yunnan Lifan Junma Auto Co., Ltd. (雲南力帆駿馬車輛有限公司)	2,615,434.36	Individual impairment test showed no risk was expected of balance recover
Sub-total	2,615,434.36	

Pursuant to the relevant agreement entered into with Yunnan Lifan Junma Auto Co., Ltd., it is expected that the relevant accounts receivable are recoverable.

- (3) There are no receivables from products sold during This Period

- (4) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
FAW-Car Co., Ltd. (一汽轎車股份有限公司)	34,968,466.09	8.42	-
Zhejiang Yuanjing Auto Parts Co., Ltd. (浙江遠景汽配有限公司)	30,005,342.37	7.23	-
Beijing Pacific Automotive Chassis System Company Limited (北京亞太汽車底盤系統有限公司)	29,120,655.92	7.01	-
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	22,246,179.99	5.36	-
Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司)	21,050,028.32	5.07	-
Sub-total	137,390,672.69	33.09	-

#### 4. Prepayments

- (1) Aging analysis

Ageing	Balance at the end of the period		Balance at the beginning of the period	
	Carrying amount	(%)	Carrying amount	(%)
Within 1 year	4,262,653.29	88.13	4,288,907.03	88.41
1-2 years	406,616.63	8.41	562,343.21	11.59
2-3 years	167,586.23	3.46	-	-
Total	4,836,856.15	100.00	4,851,250.24	100.00

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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 (%)
Ben Xi Sheng Yi Equipment Manufacturing Limited Co. (本溪盛屹裝備製造有限公司)	1,000,000.00	20.67
Kunshan Lai Jie Coloured Metal Limited Co. (昆山萊捷有色金屬有限公司)	287,500.00	5.94
Sinopec Marketing Co., Ltd. Zhejiang and Hangzhou Petroleum branch (中國石化銷售有限公司浙江杭州石油分公司)	214,797.07	4.44
Shenyang Xin Sheng Qiao Machinery and Equipment Limited Co. (瀋陽鑫盛喬機械設備有限公司)	127,221.03	2.63
Changzhou City Ke Lang Ultrasound Equipment Plant (常州市科浪超聲波設備廠)	122,863.59	2.54
Sub-total	1,752,381.69	36.22

#### 5. Other receivables

##### (1) Breakdown

##### 1) Breakdown by types

Type	Balance at the end of the period				Book value
	Carrying amount		Provision for bad debts		
	Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	3,225,240.00	44.70	-	-	3,225,240.00
Individually insignificant but significant based on credit risk characteristics	438,889.99	6.08	124,237.64	28.31	314,652.35
Individually insignificant amount with bad debt provision on individual basis	3,551,706.69	49.22	-	-	3,551,706.69
Total	7,215,836.68	100.00	124,237.64	1.72	7,091,599.04

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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)

Type	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	4,934,920.61	77.49	-	-	4,934,920.61
Individually insignificant but significant based on credit risk characteristics	402,800.57	6.32	24,237.64	6.02	378,562.93
Individually insignificant amount with bad debt provision on individual basis	1,030,796.67	16.19	100,000.00	9.70	930,796.67
<b>Total</b>	<b>6,368,517.85</b>	<b>100.00</b>	<b>124,237.64</b>	<b>1.95</b>	<b>6,244,280.21</b>

##### 2) Aging analysis

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	6,776,946.69	93.91	-	5,890,885.30	92.50	100,000.00
1-2 years	203,960.50	2.83	100,000.00	119,722.89	1.88	-
2-3 years	76,938.18	1.07	-	248,441.00	3.90	-
Over 3 years	157,991.31	2.19	24,237.64	109,468.66	1.72	24,237.64
<b>Sub-total</b>	<b>7,215,836.68</b>	<b>100.00</b>	<b>124,237.64</b>	<b>6,368,517.85</b>	<b>100.00</b>	<b>124,237.64</b>

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

Description	Provision			Reason for provision
	Carrying amount	for bad debts	Provision (%)	
Imprest to Jiilin Tiedong Economic Development Zone Administrative Committee	3,225,240.00	-	-	Individual impairment test showed no risk was expected of balance recover
<b>Sub-total</b>	<b>3,225,240.00</b>	<b>-</b>	<b>-</b>	



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	438,889.99	28.31	124,237.64
Sub-total	438,889.99	28.31	124,237.64

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

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Other receivables of individual imprest, provisional borrowings and non-public issuance fees	3,551,706.69	-	-	Individual impairment test showed no risk was expected of balance recover
Sub-total	3,551,706.69	-	-	

(2) There are no bad debts provision made during This Period

(3) There are no other receivables from products actually sold during This 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	340,511.50	331,259.00
Imprest	3,616,064.00	3,356,240.00
Provisional borrowings	2,002,641.88	666,871.03
Non-public issuance fees	646,649.52	-
Export tax refund receivable	-	1,709,680.61
Others	609,969.78	304,467.21
Sub-total	7,215,836.68	6,368,517.85

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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)

##### (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 (吉林鐵東經濟開發區管理委員會)	Imprest	3,225,240.00	Within 1 year	44.70	–
Non-public issuance fees	Non-public issuance fees	646,649.52	Within 1 year	8.96	–
Zhang Xiaogang (張曉剛)	Provisional borrowings	210,000.00	Within 1 year	2.91	–
Wang Shu Jie (王書杰)	Imprest	200,000.00	Within 1 year	2.77	–
Miao Tian Shu (繆天舒)	Imprest	190,824.00	Within 1 year	2.64	–
Sub-total		<u>4,472,713.52</u>		<u>61.98</u>	<u>–</u>

#### 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	84,411,627.84	–	84,411,627.84	65,069,045.99	–	65,069,045.99
Work-in-progress	24,486,789.21	–	24,486,789.21	34,698,396.81	–	34,698,396.81
Finished goods	149,693,276.49	855,671.88	148,837,604.61	141,603,827.36	1,169,119.70	140,434,707.66
Low-value consumables	2,640,796.41	–	2,640,796.41	4,796,409.32	–	4,796,409.32
Total	<u>261,232,489.95</u>	<u>855,671.88</u>	<u>260,376,818.07</u>	<u>246,167,679.48</u>	<u>1,169,119.70</u>	<u>244,998,559.78</u>

##### (2) Provision

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 or transfer (Note)	Others	
Finished goods	1,169,119.70	691,593.38	–	1,005,041.20	–	855,671.88
Sub-total	<u>1,169,119.70</u>	<u>691,593.38</u>	<u>–</u>	<u>1,005,041.20</u>	<u>–</u>	<u>855,671.88</u>

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

#### 7. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Bank short-term wealth management products	220,000,000.00	314,600,000.00
Value added tax input tax recoverable	4,716,129.51	1,021,294.13
Prepaid expenses	1,585,043.51	1,096,501.17
Prepaid corporate income tax	85,729.99	91,078.98
Total	<u>226,386,903.01</u>	<u>316,808,874.28</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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

##### (1) Breakdown

Item	Buildings and structures	Equipment	Transportation vehicles	Other office equipment and others	Total
Cost					
Balance at the beginning of the period	265,187,834.70	642,341,902.52	19,221,451.57	20,523,758.16	947,274,946.95
Increase during the period	135,945.95	10,422,613.00	2,288,418.39	413,093.39	13,260,070.73
1) Purchase	135,945.95	7,007,600.07	185,256.00	221,401.08	7,550,203.10
2) Transfer from construction in progress	–	3,415,012.93	2,103,162.39	191,692.31	5,709,867.63
Decrease during the period	781,078.10	1,591,641.08	1,150,404.44	16,111.11	3,539,234.73
1) Disposal	781,078.10	1,591,641.08	1,150,404.44	16,111.11	3,539,234.73
Balance at the end of the period	<u>264,542,702.55</u>	<u>651,172,874.44</u>	<u>20,359,465.52</u>	<u>20,920,740.44</u>	<u>956,995,782.95</u>
Accumulated depreciation					
Balance at the beginning of the period	53,717,533.77	268,100,599.10	12,195,447.22	13,088,383.50	347,101,963.59
Increase during the period	3,567,438.59	26,337,531.44	1,235,075.12	703,530.91	31,843,576.06
1) Provision	3,567,438.59	26,337,531.44	1,235,075.12	703,530.91	31,843,576.06
Decrease during the period	340,953.10	928,484.28	922,504.56	11,873.52	2,203,815.46
1) Disposal	340,953.10	928,484.28	922,504.56	11,873.52	2,203,815.46
Balance at the end of the period	<u>56,944,019.26</u>	<u>293,509,646.26</u>	<u>12,508,017.78</u>	<u>13,780,040.89</u>	<u>376,741,724.19</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>206,772,965.90</u>	<u>357,417,703.57</u>	<u>7,851,447.74</u>	<u>7,140,699.55</u>	<u>579,182,816.76</u>
Book value at the beginning of the period	<u>210,644,583.54</u>	<u>373,995,778.81</u>	<u>7,026,004.35</u>	<u>7,435,374.66</u>	<u>599,101,741.36</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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	2,356,784.96	-	2,356,784.96	188,735.04	-	188,735.04
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	29,780,752.09	-	29,780,752.09	23,346,967.89	-	23,346,967.89
The Siping Steering complex plant and R&D building project	15,554,313.88	-	15,554,313.88	13,910,883.84	-	13,910,883.84
The New Shibao new plant (phase 2) project	12,061,890.34	-	12,061,890.34	4,616,143.14	-	4,616,143.14
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	2,606,413.05	-	2,606,413.05	765,109.76	-	765,109.76
Other sundry projects	18,933,112.58	-	18,933,112.58	13,670,527.74	-	13,670,527.74
<b>Total</b>	<b>81,293,266.90</b>	<b>-</b>	<b>81,293,266.90</b>	<b>56,498,367.41</b>	<b>-</b>	<b>56,498,367.41</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	188,735.04	2,168,049.92	-	-	22.11	25	-	-	-	Internal fund Bank loan Fund raising	2,356,784.96
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	360,671,000.00	23,346,967.89	6,433,784.20	-	-	8.26	10	-	-	-	Internal fund Fund raising	29,780,752.09
The Siping Steering complex plant and R&D building project	14,000,000.00	13,910,883.84	1,643,430.04	-	-	111.10	100	-	-	-	Internal fund	15,554,313.88
The New Shibao new plant (phase 2) project	26,000,000.00	4,616,143.14	7,445,747.20	-	-	46.39	50	-	-	-	Internal fund	12,061,890.34
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	811,416,700.00	765,109.76	2,161,628.08	320,324.79	-	0.40	0.40	-	-	-	Internal fund	2,606,413.05
Other sundry projects	-	13,670,527.74	10,652,127.68	5,389,542.84	-	-	-	-	-	-	Internal fund	18,933,112.58
<b>Total</b>	<b>1,447,451,800.00</b>	<b>56,498,367.41</b>	<b>30,504,767.12</b>	<b>5,709,867.63</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>81,293,266.90</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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	4,000,291.14	159,172,947.36
Increase during the period	-	-	-	132,010.32	132,010.32
1) Purchase	-	-	-	132,010.32	132,010.32
Decrease during the period	-	-	-	-	-
1) Disposal	-	-	-	-	-
Balance at the end of the period	105,194,617.43	1,281,666.67	48,696,372.12	4,132,301.46	159,304,957.68
Accumulated amortization					
Balance at the beginning of the period	17,023,320.90	790,362.98	33,213,851.01	2,463,073.58	53,490,608.47
Increase during the period	1,066,793.28	64,083.31	3,289,575.33	414,351.90	4,834,803.82
1) Provision	1,066,793.28	64,083.31	3,289,575.33	414,351.90	4,834,803.82
Decrease during the period	-	-	-	-	-
1) Disposal	-	-	-	-	-
Balance at the end of the period	18,090,114.18	854,446.29	36,503,426.34	2,877,425.48	58,325,412.29
Book value					
Book value at the end of the period	87,104,503.25	427,220.38	12,192,945.78	1,254,875.98	100,979,545.39
Book value at the beginning of the period	88,171,296.53	491,303.69	15,482,521.11	1,537,217.56	105,682,338.89

#### 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 2017 | (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	4,817,628.90	963,959.42	7,892,593.35	1,471,157.09
Profits not realized from intra-group transactions	2,828,903.12	542,150.69	4,110,225.77	735,589.39
Deductible losses	223,987.35	55,996.84	2,401,218.70	600,304.67
Warranty expenses	8,173,587.87	1,426,551.51	8,392,696.73	1,431,095.26
Total	<u>16,044,107.24</u>	<u>2,988,658.46</u>	<u>22,796,734.55</u>	<u>4,238,146.41</u>

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

Item	Balance as at the end of the period		Balance as at the beginning of the period	
	Deductible temporary differences	Deferred income tax liabilities	Deductible temporary differences	Deferred income tax liabilities
Asset valuation surplus arising from business combination not under the common control (Note)	15,226,739.54	3,806,684.88	16,975,591.04	4,243,897.76
Total	<u>15,226,739.54</u>	<u>3,806,684.88</u>	<u>16,975,591.04</u>	<u>4,243,897.76</u>

(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 2017 was RMB14,027,757.58. During the period, taxable temporary differences of the reversal of fair value amortization was RMB1,364,351.52. As at 30 June 2017, the taxable temporary differences arising from such fair value adjustment amounted to RMB12,663,406.06.

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 2017 was RMB2,947,833.46. During the period, taxable temporary differences of the reversal of fair value amortization was RMB384,499.98. As at 30 June 2017, the taxable temporary differences arising from such fair value adjustment amounted to RMB2,563,333.48.

##### (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 beginning of the period	
	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	-	2,988,658.46	-	4,238,146.41
Deferred income tax liabilities	-	3,806,684.88	-	4,243,897.76

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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	691,593.38	545,511.11
Deductible losses	57,435,078.61	63,873,204.86

##### (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
2017	7,193,994.41	12,322,679.00	
2018	12,933,654.41	12,933,654.41	
2019	17,327,830.20	17,327,830.20	
2020	10,001,379.12	10,001,379.12	
2021	7,058,327.80	11,287,662.13	
2022	2,919,892.67	–	
Sub-total	57,435,078.61	63,873,204.86	

#### 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	35,143,165.88	18,279,238.79
Deposit to fulfill the contract	6,620,000.00	6,620,000.00
Total	41,763,165.88	24,899,238.79

#### 14. Notes payable

##### (1) Breakdown

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	91,639,132.34	118,716,837.78
Total	91,639,132.34	118,716,837.78

##### (2) There are no mature but unpaid notes payable at the end of the period.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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. Accounts payable

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Operating purchase payable	287,056,201.16	312,433,650.97
Long-term assets purchase payable	19,791,206.54	27,800,382.26
Total	306,847,407.70	340,234,033.23

##### (2) Aging analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	291,514,009.17	324,139,724.56
1-2 years	5,918,709.87	9,851,904.70
2-3 years	3,411,060.04	2,747,397.62
Over 3 years	6,003,628.62	3,495,006.35
Total	306,847,407.70	340,234,033.23

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 material accounts payable aged over 1 year.

#### 16. 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	5,166,439.88	5,358,989.68
Total	5,166,439.88	5,358,989.68



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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)

#### 16. 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	4,899,242.94	4,605,227.70
1-2 years	267,196.94	753,761.98
Total	<u>5,166,439.88</u>	<u>5,358,989.68</u>

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

#### 17. 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	17,596,690.68	70,151,177.43	77,412,204.82	10,335,663.29
Post-employment benefits				
– established withdrawal and deposit plan	1,320,415.01	5,835,932.12	6,733,891.13	422,456.00
Total	<u>18,917,105.69</u>	<u>75,987,109.55</u>	<u>84,146,095.95</u>	<u>10,758,119.29</u>

##### (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	16,073,509.19	59,521,913.97	66,423,163.86	9,172,259.30
Staff welfare	–	5,114,342.26	5,114,342.26	–
Social insurance	1,131,024.70	3,928,518.02	4,684,217.15	375,325.57
Including:				
Medical insurance	970,760.26	3,480,462.79	4,160,358.67	290,864.38
Work injury insurance	54,542.84	198,855.58	220,539.07	32,859.35
Maternity insurance	105,721.60	249,199.65	303,319.41	51,601.84
Housing funds	3,313.00	515,450.00	518,763.00	–
Labour union funds and employee education funds	388,843.79	1,070,953.18	671,718.55	788,078.42
Sub-total	<u>17,596,690.68</u>	<u>70,151,177.43</u>	<u>77,412,204.82</u>	<u>10,335,663.29</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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. 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	1,195,347.04	5,517,263.63	6,358,514.90	354,095.77
Unemployment insurance	125,067.97	318,668.49	375,376.23	68,360.23
Sub-total	1,320,415.01	5,835,932.12	6,733,891.13	422,456.00

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.

#### 18. Taxes payable

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax	4,264,925.52	3,081,430.03
Corporate income tax	1,826,876.07	6,795,400.05
Withhold of individual income tax	282,576.96	349,141.20
Urban maintenance and construction tax	58,844.51	347,861.52
Others	209,062.96	550,298.67
Total	6,642,286.02	11,124,131.47

#### 19. Interests payable

Item	Balance at the end of the period	Balance at the beginning of the period
Interest of long-term borrowings with periodic payments of interest and return of principal at maturity	920,471.55	917,833.33
Total	920,471.55	917,833.33

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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)

#### 20. 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	–
Total	31,585,785.50	–

#### 21. Other payables

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Payable of temporary receipts	476,136.56	341,425.90
Security deposits	3,670,397.76	3,759,950.06
Labour service company management fees	220,263.86	231,428.01
Others	170,698.27	997,187.92
Total	4,537,496.45	5,329,991.89

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

#### 22. Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Deferred income – assets related government grants (Note)	7,478,964.61	7,471,124.64
Accrued expenses	14,702,960.58	18,539,258.71
Total	22,181,925.19	26,010,383.35

(Note): The government grants to be amortized by and in relation to the assets of Hangzhou Shibao, Hangzhou New Shibao, Siping Steering, Jilin Shibao and Wuhu Sterling, all are subsidiaries of the Company, during the period of use of relevant assets in the next year.

#### 23. Long-term borrowings

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Guaranteed loans (Note 1)	2,000,000.00	–
Special funds for treasury bonds (Note 2)	830,000.00	830,000.00
Long-term loans (Note 3)	8,800,000.00	8,800,000.00
Total	11,630,000.00	9,630,000.00

(Note 1): These loans represented loans granted by the “Small Technology Giants Incubation Fund” to the Company’s subsidiary, Wuhu Sterling.

(Note 2): These loans represented special funds for treasury bonds on the State’s key technological improvement projects provided by the Ministry of Finance in Siping to the Company’s subsidiary, Siping Steering.

(Note 3): These loans were provided by Jilin Tiedong Economic Development Zone Administration Committee as non-interest bearing funding facilities for the Company’s subsidiary, Jilin Shibao, to expand its production. The commission time of production expansion programme of Jilin Shibao had been extended to the end of 2018. The related borrowings were not due yet.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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)

#### 23. Long-term borrowings (continued)

##### (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	-	-
Over 1 year but within 2 years	8,800,000.00	-
Over 2 years but within 5 years	2,830,000.00	9,630,000.00
Over 5 years	-	-
Total	11,630,000.00	9,630,000.00

#### 24. 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	40,390,847.99	978,400.00	3,747,322.29	37,621,925.70	
Total	40,390,847.99	978,400.00	3,747,322.29	37,621,925.70	

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

Item	Balance at the beginning of the period	Addition of grants during the period	Amount included in other gains during the period	Other movement (Note)	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	12,649,166.68	-	-	1,595,000.00	11,054,166.68	Assets related
Subsidy funds for the precious casting and processing of automotive components project	4,330,076.74	-	-	51,480.16	4,278,596.58	Assets related
Special funds for establishment of a platform for public services provided in foreign trading	1,414,330.30	-	-	182,589.30	1,231,741.00	Assets related
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	2,491,360.00	-	-	324,960.00	2,166,400.00	Assets related
Heavy load hydraulic rack-and-pinion steering gear for high class market	295,217.68	-	-	38,506.68	256,711.00	Assets related
Subsidies for R&D equipment	163,166.68	-	-	16,316.67	146,850.01	Assets related
Technological improvement project for quality enhancement of rack-and-pinion steering gears	2,235,660.40	-	-	163,584.90	2,072,075.50	Assets related
Construction project for development service platform of automotive steering system parts and components	16,811,869.51	-	-	1,363,124.58	15,448,744.93	Assets related
Key technological research project for high-safety smart automobile steer-by-wire system	-	900,000.00	-	-	900,000.00	Assets related
Subsidies for purchase of individual equipment	-	78,400.00	3,920.00	7,840.00	66,640.00	Assets related
Total	40,390,847.99	978,400.00	3,920.00	3,743,402.29	37,621,925.70	

(Note): These represent government grants in relation to the assets to be amortized during the period of their use, and were transferred to and stated under other current liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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. Share capital

Item	Balance at the beginning of the period	Increase/decrease during the period ("-" as decrease)					Balance at the end of the period
		Issuance of new shares	Bonus shares	Transfer from reserves	Others	Sub-total	
Shares with selling restrictions							
Shares held by domestic legal person	82,693,613.00	-	-	-	-	-	82,693,613.00
Shares held by domestic natural person	7,917,474.00	-	-	-	-	-	7,917,474.00
Shares without selling restrictions							
A Shares	138,532,768.00	-	-	-	-	-	138,532,768.00
H Shares	86,714,000.00	-	-	-	-	-	86,714,000.00
<b>Total</b>	<b>315,857,855.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>315,857,855.00</b>

#### 26. 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	652,592,565.17	-	-	652,592,565.17
Other capital reserve	6,444,389.04	-	-	6,444,389.04
<b>Total</b>	<b>659,036,954.21</b>	<b>-</b>	<b>-</b>	<b>659,036,954.21</b>

#### 27. 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	130,760,053.19	-	-	130,760,053.19
<b>Total</b>	<b>130,760,053.19</b>	<b>-</b>	<b>-</b>	<b>130,760,053.19</b>

#### 28. Retained earnings

Item	Balance for the current period	Balance for the corresponding period last year
Retained earnings at end of last year before adjustment	367,854,898.00	341,181,295.69
Total amount of adjustment of retained earnings at the beginning of the year ("+" as increase, "-" as decrease)	-	-
Retained earnings at the beginning of the year after adjustment	367,854,898.00	341,181,295.69
Add: Net profit attributable to equity holders of the parent	39,715,087.12	38,867,423.38
Less: Transfer to statutory reserve funds	-	-
Dividends payable	31,585,785.50	31,585,785.50
<b>Retained earnings at the end of the period</b>	<b>375,984,199.62</b>	<b>348,462,933.57</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 1. Revenue/cost of sales

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Revenue from main business	540,744,812.35	430,199,325.76	527,243,673.19	407,439,879.99
Revenue from other business	5,481,035.46	513,035.67	4,333,355.53	1,186,483.06
Total	546,225,847.81	430,712,361.43	531,577,028.72	408,626,363.05

#### 2. Business taxes and surcharges

Item	Balance for the current period	Balance for the corresponding period last year
Business tax	–	46,371.33
Urban maintenance and construction tax	735,732.67	1,038,872.41
Education surcharge	321,535.79	480,233.33
Local education surcharge	214,357.20	276,028.98
Stamp duty	240,990.12	–
Real estate tax	894,956.57	–
Urban land use tax	1,680,956.20	–
Vehicles and vessels use tax	16,390.50	–
Total	4,104,919.05	1,841,506.05

#### 3. Sales expenses

Item	Balance for the current period	Balance for the corresponding period last year
Transportation cost	10,871,607.45	9,419,222.89
Warranty fee	6,298,544.42	7,250,717.55
Wages, welfare and bonuses	5,031,048.39	4,140,008.88
Travelling expenses	1,219,684.77	1,693,478.15
Entertainment charge	1,931,569.08	2,238,721.15
Depreciation of fixed assets	212,932.71	216,771.83
Others	2,878,276.58	2,326,196.18
Total	28,443,663.40	27,285,116.63

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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	16,679,619.40	16,504,661.93
Research and development expenses	18,593,702.78	17,930,229.53
Office cost	3,210,985.61	3,723,505.40
Professional service fee	2,525,194.89	2,697,064.63
Depreciation of fixed assets	2,058,508.29	2,049,826.11
Amortization of intangible assets	3,660,933.69	3,361,176.80
Other taxation	–	2,068,599.78
Travelling expenses	1,427,502.39	1,116,084.48
Entertainment charge	1,231,150.88	1,066,134.03
Others	1,252,077.13	960,934.40
Total	50,639,675.06	51,478,217.09

#### 5. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	396,027.55	438,776.81
Interest income	-449,060.71	-1,812,810.40
Others	153,802.28	214,114.00
Total	100,769.12	-1,159,919.59

#### 6. Assets impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debts losses	-2,615,434.36	–
Provision for inventories losses	691,593.38	903,808.81
Total	-1,923,840.98	903,808.81

#### 7. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Gains from bank short-term wealth management products	4,726,634.21	2,656,495.90
Total	4,726,634.21	2,656,495.90

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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. Other gains

Item	Balance for the current period	Balance for the corresponding period last year
Subsidy for people with disabilities	10,000.00	–
Incentive funds (subsidies) in respect of economic development policy of the Hangzhou Economic and Technology Zone	863,000.00	–
Stable employment subsidy to unemployment insurance supporting enterprises of Siping	99,400.00	–
Industry Innovation Development Fund	46,100.00	–
Incentive funds in respect of land use tax of the Wuhu Economic and Technology Zone	748,100.00	–
Subsidies for acquisition of individual equipment	3,920.00	–
Research fund for key technologies in steer-by-wire system of high safety standard smart cars	2,100,000.00	–
Subsidies to corporate manpower for dynamic supervising personnel	450.00	–
Special funds for adjustment and improvement project for traditional industry bases including the Northeast area	1,595,000.00	–
Subsidy funds for the precious casting and processing of automotive components project	51,480.16	–
Special funds for establishment of a platform for public services provided in foreign trading	182,589.30	–
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	324,960.00	–
Heavy load hydraulic rack-and-pinion steering gear for high class market	38,506.68	–
Subsidies for R&D equipment	16,316.67	–
Technological improvement project for quality enhancement of rack-and-pinion steering gears	163,584.90	–
Construction project for development service platform of automotive steering system parts and components	1,363,124.58	–
<b>Total</b>	<b>7,606,532.29</b>	<b>–</b>

#### 9. Non-operating income

Item	Balance for this period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Total gains from disposal of non-current assets	82,559.70	357,307.67	82,559.70
Including: Gains from disposal of fixed assets	82,559.70	357,307.67	82,559.70
Government grants	–	3,723,737.71	–
Others	26,072.59	35,360.40	26,072.59
<b>Total</b>	<b>108,632.29</b>	<b>4,116,405.78</b>	<b>108,632.29</b>



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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)

#### 10. 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	661,976.23	307,057.20	661,976.23
Including: Losses from disposal of fixed assets	661,976.23	307,057.20	661,976.23
Local water conservancy construction funds	46,046.64	535,196.53	–
Others	76,003.40	47,029.58	76,003.40
Total	784,026.27	889,283.31	737,979.63

#### 11. Income tax expenses

##### (1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Current income tax	4,705,013.28	8,043,190.17
Deferred income tax	812,275.07	160,538.89
Total	5,517,288.35	8,203,729.06

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 (corresponding period of 2016: Nil).

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

Item	Balance for the current period
Total profit	45,806,073.25
Income tax expenses calculated at legal/applicable tax rate	11,451,518.32
Effects of different applicable tax rates on subsidiaries	-3,848,517.73
Effects of adjusting income tax of prior periods	174,021.51
Effects on non-taxable income	-411,620.04
Effects of including and excluding R&D expenses	-1,190,046.19
Effects on non-deductible costs, expenses and losses	219,605.49
The effect of utilization of deductible loss arising from deferred income tax assets not previously recognized	-1,464,472.33
Effects of deductible temporary differences or deductible loss of deferred income tax assets unrecognized during the period	586,799.32
Income tax expenses	5,517,288.35

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 1. Cash received in relation to operating activities

Item	Balance for the current period	Balance for the corresponding period last year
Recovery of deposits including banker's acceptances	7,585,375.11	17,323,496.74
Receipt of government grants which are revenue related	3,118,950.00	1,351,300.00
Interest income	449,060.71	1,812,810.40
Others	26,072.59	35,360.40
<b>Total</b>	<b>11,179,458.41</b>	<b>20,522,967.54</b>

#### 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	24,811,934.31	17,978,165.51
Cash paid as general and administrative expenses	12,871,413.73	9,127,699.39
Payment of deposits including banker's acceptances	1,259,119.85	12,301,904.75
Others	2,934,689.00	622,896.53
<b>Total</b>	<b>41,877,156.89</b>	<b>40,030,666.18</b>

#### 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	978,400.00	13,890,000.00
<b>Total</b>	<b>978,400.00</b>	<b>13,890,000.00</b>

#### 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	646,649.52	–
<b>Total</b>	<b>646,649.52</b>	<b>–</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

Supplemental information	Balance for the current period	Balance for the corresponding period last year
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	40,288,784.90	40,281,825.99
Add: Provision for impairment to assets	-1,923,840.98	903,808.81
Depreciation of fixed assets, oil and gas assets and production	31,843,576.06	28,874,536.43
Amortization of intangible assets	4,834,803.82	4,760,783.24
Losses on disposal of fixed assets, intangible assets and other long-term assets (“-” as gains)	579,416.53	-50,250.47
Finance expenses (“-” as gains)	393,989.59	431,074.76
Investment losses (“-” as gains)	-4,726,634.21	-2,656,495.90
Decrease in deferred income tax assets (“-” as increase)	1,249,487.95	597,751.77
Increase in deferred income tax liabilities (“-” as decrease)	-437,212.88	-437,212.88
Decrease in inventories (“-” as increase)	-15,064,810.47	18,283,551.08
Decrease in operational receivables (“-” as increase)	-11,138,610.18	-135,334,931.58
Increase in operational payables (“-” as decrease)	-61,184,337.99	46,495,728.60
Net cash flows from operating activities	<b>-15,285,387.86</b>	2,150,169.85
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	157,731,796.66	179,525,825.77
Less: Cash at the beginning of the period	117,330,581.92	486,048,673.31
Net increase in cash and cash equivalents	<b>40,401,214.74</b>	-306,522,847.54

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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

Item	Balance at the end of the period	Balance at the beginning of the period
1) Cash	<b>157,731,796.66</b>	117,330,581.92
Including: Cash on hand	<b>297,264.08</b>	150,301.65
Bank deposit readily available	<b>157,434,532.58</b>	179,375,524.12
2) Cash equivalents	–	–
3) Closing balance of cash and cash equivalents	<b>157,731,796.66</b>	117,330,581.92

Note: The transferred endorsed bank acceptance bills which do not involve in cash receipt and payment during This Period amounted to RMB415,463,679.52, among which, payment for goods amounted to RMB390,007,037.12 and payment for the purchase of long-term assets such as fixed assets amounted to RMB25,456,642.40.

Closing balance of cash and cash equivalents in the statement of cash flows for the period of January to June 2017 was RMB157,731,796.66 and closing balance of cash on hand and at bank in the balance sheet as at 30 June 2017 was RMB179,235,249.59. The difference of RMB21,503,452.93 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 2016 was RMB117,330,581.92 and closing balance of cash on hand and at bank in the balance sheet as at 31 December 2016 was RMB145,160,290.11. The difference of RMB27,829,708.19 was other monetary funds unqualified as cash and cash equivalents and having been deducted from the closing cash balance of the statement of cash flows.

### (4) Others

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

Item	Carrying amount at the end of the period	Reason for restriction
Monetary funds	21,503,452.93	Security deposits
Bills receivable	61,131,721.62	Pledge
Fixed assets	4,767,890.98	Charge
Intangible assets	3,236,791.06	Charge
Total	<u>90,639,856.59</u>	

#### 2. Monetary items in foreign currencies

Item	Foreign currency balance at the end of the period	Exchange rate	Balance translated into RMB at the end of the period
Monetary funds			
Including: US Dollar	6,661.93	6.7744	45,130.57
Euro	1,755.05	7.7496	13,600.93
Accounts receivable			
Including: US Dollar	14,066.92	6.7744	95,294.94
Euro	100,032.80	7.7496	775,214.18

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (4) Others (continued)

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

Item	Balance at the end of the period	Balance at the beginning of the period
Net current assets	<b>744,727,181.55</b>	753,017,937.85
Total assets less current liabilities	<b>1,555,629,117.28</b>	1,548,132,253.05

#### 4. Depreciation and amortization expenses

Item	Balance for the current period	Balance for the corresponding period last year
Depreciation of fixed assets, oil and gas assets and production related biological materials	<b>31,843,576.06</b>	28,874,536.43
Amortization of intangible assets	<b>4,834,803.82</b>	4,760,783.24
Total	<b>36,678,379.88</b>	33,635,319.67

#### 5. Earnings per share

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

During the Reporting Period, the Company had no potential dilutive ordinary shares.

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

	Balance for the current period	Balance for the corresponding period last year
Earnings		
Net profit attributable to the ordinary shareholders of the Company	<b>39,715,087.12</b>	38,867,423.38
Shares		
Weighted average number of ordinary shares issued by the Company	<b>315,857,855.00</b>	315,857,855.00
Basic earnings per share (RMB)	<b>0.1257</b>	0.1231
Diluted earnings per share (RMB)	<b>0.1257</b>	0.1231

#### 6. 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 6. OWNER'S EQUITY IN OTHER ENTITIES

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

#### 1. Particulars of significant subsidiaries

Name of subsidiary	Principal place of business	Place of registration	Nature of business	Percentage of shareholding (%)		Method of ownership
				Direct	Indirect	
Hangzhou Shibao	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	100.00	–	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

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

Name of subsidiary	Percentage of shareholding of minority shareholders	Profit or 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%	2,194,256.61	–	3,163,605.15
Wuhu Sterling	42.11%	-1,620,558.83	–	17,767,839.53

#### 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	193,619,528.26	70,064,970.92	263,684,499.18	251,907,407.67	1,231,741.00	253,139,148.67
Wuhu Sterling	100,641,664.35	60,018,256.39	160,659,920.74	113,086,707.18	5,379,341.52	118,466,048.70

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	214,244,124.35	58,031,179.20	272,275,303.55	267,629,811.43	1,414,330.30	269,044,141.73
Wuhu Sterling	120,577,838.70	63,615,239.32	184,193,078.02	134,480,705.63	3,670,106.07	138,150,811.70

##### (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	109,985,047.85	7,314,188.69	7,314,188.69	6,236,209.80	100,019,649.17	2,197,935.53	2,197,935.53	-1,115,509.70
Wuhu Sterling	57,223,937.79	-3,848,394.28	-3,848,394.28	7,468,541.06	57,931,289.88	1,845,656.65	1,845,656.65	12,603,532.13

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### (1) Details of financial instruments

Item	Balance at the end of the period	Balance at the beginning of the period
Financial assets	<b>733,405,668.24</b>	712,968,559.97
Including: Cash on hand and at bank	<b>179,235,249.59</b>	145,160,290.11
Notes receivable	<b>136,542,768.42</b>	162,714,933.93
Accounts receivable	<b>410,536,051.19</b>	398,849,055.72
Other receivables	<b>7,091,599.04</b>	6,244,280.21
Financial liabilities	<b>426,332,627.33</b>	493,745,801.92
Including: Bank and other borrowings	<b>11,630,000.00</b>	9,630,000.00
Notes payable	<b>91,639,132.34</b>	118,716,837.78
Accounts payable	<b>306,847,407.70</b>	340,234,033.23
Staff costs payable	<b>10,758,119.29</b>	18,917,105.69
Interests payable	<b>920,471.55</b>	917,833.33
Other payables	<b>4,537,496.45</b>	5,329,991.89

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 2017, the Group had specific concentration of credit risk as 33.09% (31 December 2016: 31.81%) of the Company's accounts receivable were due from the five largest customers. The Group does not hold any collateral or other credit enhancements over the balance of receivables.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (2) Credit risk (continued)

The amounts of financial assets that are not past due or impaired, and the 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	179,235,249.59	-	-	-	179,235,249.59
Notes receivable	136,542,768.42	-	-	-	136,542,768.42
Accounts receivable	406,626,864.68	3,184,780.10	28,741.93	695,664.48	410,536,051.19
Other receivables	7,091,599.04	-	-	-	7,091,599.04
Total	<u>729,496,481.73</u>	<u>3,184,780.10</u>	<u>28,741.93</u>	<u>695,664.48</u>	<u>733,405,668.24</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	145,160,290.11	-	-	-	145,160,290.11
Notes receivable	162,714,933.93	-	-	-	162,714,933.93
Accounts receivable	396,577,811.46	1,678,355.69	291,061.94	301,826.63	398,849,055.72
Other receivables	6,244,280.21	-	-	-	6,244,280.21
Total	<u>710,697,315.71</u>	<u>1,678,355.69</u>	<u>291,061.94</u>	<u>301,826.63</u>	<u>712,968,559.97</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

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (3) Liquidity risk (continued)

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

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Cash on hand and at bank	179,235,249.59	179,235,249.59	179,235,249.59	-	-
Notes receivable	136,542,768.42	136,542,768.42	136,542,768.42	-	-
Accounts receivable	410,536,051.19	410,536,051.19	410,536,051.19	-	-
Other receivables	7,091,599.04	7,091,599.04	7,091,599.04	-	-
<b>Total</b>	<b>733,405,668.24</b>	<b>733,405,668.24</b>	<b>733,405,668.24</b>	<b>-</b>	<b>-</b>

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	145,160,290.11	145,160,290.11	145,160,290.11	-	-
Notes receivable	162,714,933.93	162,714,933.93	162,714,933.93	-	-
Accounts receivable	398,849,055.72	398,849,055.72	398,849,055.72	-	-
Other receivables	6,244,280.21	6,244,280.21	6,244,280.21	-	-
<b>Total</b>	<b>712,968,559.97</b>	<b>712,968,559.97</b>	<b>712,968,559.97</b>	<b>-</b>	<b>-</b>

#### 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 and other borrowings	11,630,000.00	12,023,236.12	-	11,045,680.56	977,555.56
Notes payable	91,639,132.34	91,639,132.34	91,639,132.34	-	-
Accounts payable	306,847,407.70	306,847,407.70	306,847,407.70	-	-
Staff costs payable	10,758,119.29	10,758,119.29	10,758,119.29	-	-
Interest payable	920,471.55	920,471.55	920,471.55	-	-
Other payables	4,537,496.45	4,537,496.45	4,537,496.45	-	-
<b>Total</b>	<b>426,332,627.33</b>	<b>426,725,863.45</b>	<b>414,702,627.33</b>	<b>11,045,680.56</b>	<b>977,555.56</b>

Item	Carrying value	Balance at the beginning of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank and other borrowings	9,630,000.00	9,796,000.00	-	-	9,796,000.00
Notes payable	118,716,837.78	118,716,837.78	118,716,837.78	-	-
Accounts payable	340,234,033.23	340,234,033.23	340,234,033.23	-	-
Staff costs payable	18,917,105.69	18,917,105.69	18,917,105.69	-	-
Interest payable	917,833.33	917,833.33	917,833.33	-	-
Other payables	5,329,991.89	5,329,991.89	5,329,991.89	-	-
<b>Total</b>	<b>493,745,801.92</b>	<b>493,911,801.92</b>	<b>484,115,801.92</b>	<b>-</b>	<b>9,796,000.00</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (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.

As at 30 June 2017, the bank borrowings of the Company with floating interest rates were RMB2,000,000.00 (31 December 2016: RMB0.00), and a reasonable and possible 50% base point change in interest rates, with all other variables held constant, will not have any significant impact on total profit and shareholders' equity of the Company.

#### 2. Foreign exchange risk

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

### (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 2017, the Company's gearing ratio was -10.77% (2016: -7.77%). The calculation is described as follow:

Item	Balance at the end of the period	Balance at the beginning of the period
Total borrowings	11,630,000.00	9,630,000.00
Less: Cash and cash equivalents	157,731,796.66	117,330,581.92
Net debt	-146,101,796.66	-107,700,581.92
Equity	1,502,570,506.70	1,493,867,507.30
Total capital	1,356,468,710.04	1,386,166,925.38
Gearing ratio	-10.77%	-7.77%

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### (1) Related parties

#### 1. Parent company

##### (1) Parent company

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

Name of parent company	Place of registration	Nature of business	Registered capital (RMB0,000)	Shareholding % in the Company	Voting % in the Company
Shibao Holding	Zhejiang Yiwu	Industrial investment	5,000.00	44.01	44.01

(2) The ultimate shareholder of the Company is Mr. Zhang Shi Quan and his family members, namely, 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 the note to the financial statements "Owner's equity in other entities".

### (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	Note
Shibao Holding	2,000,000.00	2017.01.18	2020.01.17	No	Bank borrowings
Shibao Holding	4,190,000.00	2017.01.16	2017.10.28	No	Bank acceptance bills

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (3) Receivable and payable with related parties

Item	Related party	Balance at the end of the period	Balance at the beginning of the period
Notes payable	Zhejiang Shibao (Note)	1,380,000.00	–
	Hangzhou Shibao (Note)	4,578,801.27	9,626,048.97
	Jilin Shibao (Note)	3,450,000.00	3,250,000.00
	Hangzhou New Shibao (Note)	–	170,000.00
	Beijing Autonics (Note)	1,564,420.16	7,821,485.08
	Siping Steering (Note)	306,295.84	20,867,534.05
Total		11,279,517.27	41,735,068.10

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

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

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	1,581,414.27	1,537,146.05
Other key management	515,968.84	445,670.69
Total	2,097,383.11	1,982,816.74

## 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	61,744,583.10	47,345,192.19

## 10. EVENTS AFTER THE BALANCE SHEET DATE

### (1) Distribution of profit for 2016

Pursuant to the profit distribution proposal for 2016 passed at the 21st meeting of the fifth session of the Board of the Company held on 24 March 2017 and the 2016 annual general meeting of the Company held on 30 June 2017, based on the total share capital of 315,857,855 Shares, a cash dividend of RMB1.00 (before tax) per 10 Shares held will be distributed to all Shareholders. In addition, 15 Shares will be transferred to all Shareholders for every 10 Shares held out of the capital reserve fund. The implementation of the aforementioned profit distribution proposal was completed on 31 July 2017.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 11. 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

Type	Balance at the end of the period		Provision for bad debts		Book value
	Carrying amount Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	64,924,586.22	99.55	-	-	64,924,586.22
Individually insignificant but significant based on credit risk characteristics	292,979.00	0.45	292,979.00	100.00	-
Total	65,217,565.22	100.00	292,979.00	0.45	64,924,586.22

Type	Balance at the beginning of the period		Provision for bad debts		Book value
	Carrying amount Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	70,012,874.40	99.58	-	-	70,012,874.40
Individually insignificant but significant based on credit risk characteristics	292,979.00	0.42	292,979.00	100.00	-
Total	70,305,853.40	100.00	292,979.00	0.42	70,012,874.40

##### 2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount Amount	Proportion (%)	Provision for bad debts	Carrying amount Amount	Proportion (%)	Provision for bad debts
Within 1 year	23,646,223.01	36.26	-	28,616,682.26	40.70	-
1-2 years	33,837,931.19	51.88	-	41,396,192.14	58.88	-
2-3 years	7,440,432.02	11.41	-	-	-	-
Over 3 years	292,979.00	0.45	292,979.00	292,979.00	0.42	292,979.00
Sub-total	65,217,565.22	100.00	292,979.00	70,305,853.40	100.00	292,979.00

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 11. 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 debts	Provision (%)	Reason for provision
Receivables of sales payment from Wuhu Sterling	64,924,586.22	–	–	Individual impairment test showed no risk was expected of balance recover
Sub-total	64,924,586.22	–	–	

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

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	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 This Period.

(3) There are no receivables from products actually sold during This Period.

(4) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
Wuhu Sterling	64,924,586.22	99.55	–
Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd. (贛州江環汽車製造有限公司)	125,000.00	0.19	125,000.00
Hubei San Huan Special Vehicle Co., Ltd. (湖北三環專用汽車有限公司)	43,400.00	0.07	43,400.00
Dongfeng Motor Transmission Shaft Co., Ltd. Shiyan Sub-company (東風汽車傳動軸有限公司十堰分公司)	36,000.00	0.06	36,000.00
Luoyang Biao Ma Vehicle Co., Ltd. (洛陽彪馬車輛有限公司)	32,770.00	0.05	32,770.00
Sub-total	65,161,756.22	99.92	237,170.00

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 11. 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

Type	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	348,878,343.29	99.66	-	-	348,878,343.29
Individually insignificant but significant based on credit risk characteristics	149,877.00	0.04	-	-	149,877.00
Individually insignificant amount with bad debt provision on individual basis	1,038,871.13	0.30	-	-	1,038,871.13
<b>Total</b>	<b>350,067,091.42</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>350,067,091.42</b>

Type	Carrying amount		Balance at the beginning of the period		Book value
	Amount	%	Provision for bad debts Amount	%	
Individually significant amount with bad debt provision on individual basis	316,253,272.25	99.88	-	-	316,253,272.25
Individually insignificant but significant based on credit risk characteristics	259,093.02	0.08	-	-	259,093.02
Individually insignificant amount with bad debt provision on individual basis	129,181.66	0.04	-	-	129,181.66
<b>Total</b>	<b>316,641,546.93</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>316,641,546.93</b>

##### 2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount Amount	Proportion (%)	Provision for bad debts	Carrying amount Amount	Proportion (%)	Provision for bad debts
Within 1 year	127,485,118.51	36.42	-	103,233,599.47	32.60	-
1-2 years	62,035,400.46	17.72	-	62,130,958.53	19.62	-
2-3 years	55,009,987.01	15.71	-	47,823,000.60	15.10	-
Over 3 years	105,536,585.44	30.15	-	103,453,988.33	32.68	-
<b>Sub-total</b>	<b>350,067,091.42</b>	<b>100.00</b>	<b>-</b>	<b>316,641,546.93</b>	<b>100.00</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 11. 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 debts	Provision (%)	Reason for provision
Receivables of sales payment from Jilin Shibao and others	348,878,343.29	-	-	Individual impairment test showed no risk was expected of balance recover
Sub-total	<u>348,878,343.29</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	149,877.00	-	-
Sub-total	<u>149,877.00</u>	<u>-</u>	<u>-</u>

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

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Non-public issuance fees, other receivables of individual imprest and others	1,038,871.13	-	-	Individual impairment test showed no risk was expected of balance recover
Sub-total	<u>1,038,871.13</u>	<u>-</u>	<u>-</u>	

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

(3) There are no other receivables from products actually sold during This Period.



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 2. Other receivables (continued)

##### (4) 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	348,878,343.29	316,253,272.25
Security deposits	145,129.50	217,059.00
Imprest	187,199.61	74,809.22
Non-public issuance fees	646,649.52	–
Others	209,769.50	96,406.46
Sub-total	350,067,091.42	316,641,546.93

##### (5) 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	32.65	–
Beijing Autonics	Current accounts	86,900,000.00	Within 1 year, 1-2 years, 2-3 years, Over 3 years	24.49	–
Hangzhou New Shibao	Current accounts	85,741,054.68	Within 1 year, 1-2 years, 2-3 years, Over 3 years	24.82	–
Hangzhou Shibao	Current accounts	35,095,952.50	Within 1 year	10.03	–
Siping Steering	Current accounts	26,851,336.11	Within 1 year, 1-2 years, 2-3 years, Over 3 years	7.67	–
Sub-total		348,878,343.29		99.66	–

#### 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	185,159,214.87	–	185,159,214.87	185,159,214.87	–	185,159,214.87
Total	185,159,214.87	–	185,159,214.87	185,159,214.87	–	185,159,214.87

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 11. 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	10,000,000.00	-	-	10,000,000.00	-	-
Wuhu Sterling	19,447,407.38	-	-	19,447,407.38	-	-
Sub-total	185,159,214.87	-	-	185,159,214.87	-	-

### (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	25,224,837.13	21,238,270.15	18,811,327.55	12,285,768.64
Revenue from other business	143,207.38	74,197.99	271,838.04	199,774.27
Total	25,368,044.51	21,312,468.14	19,083,165.59	12,485,542.91

#### 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	40,000,000.00
Gains from bank short-term wealth management products	1,849,167.12	1,377,715.08
Total	41,849,167.12	41,377,715.08

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2017 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 12. OTHER SUPPLEMENTAL INFORMATION

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

Item	Amount
Gain or loss on disposal of non-current assets	-579,416.53
Government subsidy included in profit or loss for the period, except for those closely relevant to normal business of the company, conformed to requirements of State policy, granted on fixed amount basis or enjoyed on continuous fixed amount basis	7,606,532.29
Gain or loss on entrusted investment or asset management	4,726,634.21
Reversal of impairment provisions for receivables subject to individual impairment test	2,615,434.36
Other non-operating income and expenses apart from those stated above	-49,930.81
Less: Effect on enterprise income tax	1,563,242.71
Effect on interest of minority shareholders	380,897.81
	12,375,113.00
Net non-recurring gains or losses attributable to equity holders of the parent	12,375,113.00

### (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	0.1257	0.1257
Net profits after deducting non-recurring profit or loss attributable to the ordinary shareholders of the Company	1.83	0.0866	0.0866

# DISCUSSION AND ANALYSIS OF OPERATIONS

## 1) REVIEW OF CHINA AUTOMOBILE INDUSTRY

From January to June 2017, production and sales volume of China automobile industry were 13,526,000 units and 13,354,000 units respectively, representing an increase of 4.60% and 3.80% respectively as compared with last year. Production and sales of passenger cars were 11,483,000 units and 11,253,000 units respectively, representing an increase of 3.20% and 1.60% respectively as compared with last year. Among these, sales volume of China-brand passenger cars was 4,940,000 units, representing an increase of 4.30% as compared with last year. Production and sales volume of new energy cars were 212,000 units and 195,000 units respectively, representing an increase of 19.70% and 14.40% respectively as compared with last year. Production and sales of commercial vehicles were 2,043,000 units and 2,101,000 units respectively, representing an increase of 13.80% and 17.40% respectively as compared with last year. Among commercial vehicles, production and sales volume of buses decreased by 15.30% and 14.00% respectively as compared with last year; production and sales volume of trucks increased by 18.70% and 22.60% respectively as compared with last year. The top ten automaker groups in China sold 11,811,000 units of automobiles, representing an increase of 4.00% as compared with last year, and their sales represented 88.50% of the total sales of the automobile, representing an increase of 0.20% as compared with last year.

## 2) ANALYSIS OF MAIN BUSINESS

### 1. Changes in major financial information

	January-June 2017	January-June 2016	Change
Revenue	<b>546,225,847.81</b>	531,577,028.72	2.76%
Operating costs	<b>430,712,361.43</b>	408,626,363.05	5.40%
Selling expenses	<b>28,443,663.40</b>	27,285,116.63	4.25%
General and administrative expenses	<b>50,639,675.06</b>	51,478,217.09	-1.63%
Financial expenses	<b>100,769.12</b>	-1,159,919.59	-108.69%
Income tax expenses	<b>5,517,288.35</b>	8,203,729.06	-32.75%
Research and development expenses	<b>18,593,702.78</b>	17,930,229.53	3.70%
Net cash flows from operating activities	<b>-15,285,387.86</b>	2,150,169.85	-810.89%
Net cash flows from investing activities	<b>54,724,603.49</b>	-295,217,886.13	-118.54%
Net cash flows from financing activities	<b>959,961.15</b>	-13,462,833.31	-107.13%
Net increase of cash and cash equivalents	<b>40,401,214.74</b>	-306,522,847.54	-113.18%

During the Reporting Period, under the combined effects of a slowdown in growth of the PRC automobile industry and export sales performance of the Company falling short of expectation, the Company recorded a revenue of RMB546,225,847.81, representing a growth of 2.76% as compared with last year.

During the Reporting Period, the gross profit margin of the Company's main business was 20.44% (corresponding period of 2016: 22.72%). The decrease in the gross profit margin was mainly attributable to combined effects of a drop in the export sales business, which normally enjoys a higher gross profit margin, and the reduction in selling price of certain traditional products. The Company's intelligent steering project was in the phase of development and testing, thus a relatively substantial capital input was incurred during the Reporting Period.

During the Reporting Period, the Company's selling expenses was RMB28,443,663.40, representing an increase of 4.25% as compared with last year. Increase in selling expenses was mainly due to the rise in transportation fees. General and administrative expenses were RMB50,639,675.06, representing a decrease of 1.63% as compared with last year, among which research and development expenses recorded an increase of 3.70% as compared with last year. Financial expenses were RMB100,769.12, representing an increase of 108.69% as compared with last year. Increase in financial expenses was mainly due to a decrease in interest income.

# DISCUSSION AND ANALYSIS OF OPERATIONS

During the Reporting Period, the Company's research and development expenses was RMB18,593,702.78, representing an increase of 3.70% as compared with last year. The Company's research and development expenses are mainly used on the technical research of automotive steering system's safety, intelligent, energy saving and light weight, including relevant technical research on automotive pilot assisting and autopilot technology, in order to maintain competitiveness of the Company to support its continuous growth.

During the Reporting Period, income tax expense of the Company amounted to RMB5,517,288.35, representing a decrease of 32.75% as compared with last year, mainly due to the combined effects of a decrease in total profit, and profits realized from certain loss-making subsidiaries that cover the losses in previous years.

During the Reporting Period, other income of the Company amounted to RMB7,606,532.29, mainly comprises government grants.

In view of the above, the Company recorded a net profit attributable to shareholders of the listed company of RMB39,715,087.12 during the Reporting Period, representing an increase of 2.18% as compared with last year.

During the Reporting Period, net cash flows from operating activities decreased by 810.89% as compared with last year, mainly due to the combined effects of an increase in cash outflow paid for materials purchase and paid to staff members, and a decrease in recollection of guarantee deposits for bank acceptance bills, etc.. Net cash flows from investing activities increased by 118.54% as compared with last year, mainly due to the redemption of bank short-term wealth management products. Net cash flows from financing activities increased by 107.13% as compared with last year, mainly due to a decrease in repayment of bank borrowings. In view of above, during the Reporting Period, net increase in cash and cash equivalents increased by 113.18% as compared with last year.

## 2. Composition of revenue

	January-June 2017		January-June 2016		Change
	Amount	Proportion to revenue	Amount	Proportion to revenue	
Total Revenue	546,225,847.81	100%	531,577,028.72	100%	2.76%
<b>By industry</b>					
Manufacture of automotive components and parts	540,744,812.35	99.00%	527,243,673.19	99.18%	2.56%
Others	5,481,035.46	1.00%	4,333,355.53	0.82%	26.48%
<b>By products</b>					
Steering system and parts	519,031,720.19	95.02%	501,792,849.63	94.39%	3.44%
Parts and others	21,713,092.16	3.98%	25,450,823.56	4.79%	-14.69%
Others	5,481,035.46	1.00%	4,333,355.53	0.82%	26.48%

## 3. Details of industry and product accounted for over 10% of the Company's revenue or operating profit

	Revenue	Cost	Gross margin	Change of revenue	Change of cost	Change of gross margin
<b>By industry</b>						
Manufacture of automotive components and parts	540,744,812.35	430,199,325.76	20.44%	2.56%	5.59%	-2.28%
<b>By products</b>						
Steering system and parts	519,031,720.19	413,762,623.55	20.28%	3.44%	6.71%	-2.45%

# DISCUSSION AND ANALYSIS OF OPERATIONS

## 3) ANALYSIS OF ASSETS AND LIABILITIES

### 1. Significant changes in composition of assets

No significant changes in composition of assets at the end of Reporting Period. Details of changes in assets accounted for over 5% of the total assets are set out below.

	30 June 2017		31 December 2016		Change
	Amount	Percentage of total assets	Amount	Percentage of total assets	
Cash on hand and at bank	179,235,249.59	8.80%	145,160,290.11	7.00%	1.80%
Notes receivable	136,542,768.42	6.71%	162,714,933.93	7.84%	-1.13%
Accounts receivable	410,536,051.19	20.16%	398,849,055.72	19.22%	0.94%
Inventories	260,376,818.07	12.79%	244,998,559.78	11.81%	0.98%
Other current assets	226,386,903.01	11.12%	316,808,874.28	15.27%	-4.15%
Fixed assets	579,182,816.76	28.45%	599,101,741.36	28.88%	-0.43%
Accounts payable	306,847,407.7	15.07%	340,234,033.23	16.40%	-1.33%

### 2. Assets with restricted rights at end of the Reporting Period

Assets with restrictions in ownership or use rights

Item	Carrying amount at the end of the period	Reason for restriction
Cash on hand and at bank	21,503,452.93	Security deposits (Note 1)
Notes receivable	61,131,721.62	Pledge (Note 2)
Fixed assets	4,767,890.98	Charge
Intangible assets	3,236,791.06	Charge
Total	90,639,856.59	

(Note 1): Represents the security deposits of RMB21,503,103.58 for the issuance of bank acceptance bills and interest income of RMB349.35 from security deposits for the issuance of credit letters.

(Note 2): Provision of pledge for the issuance of bank acceptance bills.

### 3. Financial resources and capital structure

As at 30 June 2017, the amount of total loans and borrowings of the Company was RMB11,630,000.00 (31 December 2016: RMB9,630,000.00). Total loans and borrowings increased by RMB2,000,000.00 when compared with the beginning balance of the year, mainly due to an increase of long-term bank borrowings. Among which, loans and borrowings of short-term and due within one year amounted to zero (31 December 2016: zero). Loans and borrowings at fixed interest rates amounted to RMB830,000.00 (31 December 2016: RMB830,000.00).

The Company issued 38.2 million RMB ordinary shares (A Shares) by way of non-public issue in 2014 at issue price of RMB18.46 per share, which raised a gross proceeds of RMB705,172,000.00 and a net proceeds of RMB658,162,900.00 after deducting the related costs. On 11 December 2014, the proceeds were credited into the regulatory proceeds account of the Company. The amount of the proceeds actually utilized by the Company in the first half of 2017 was RMB22,700,500.00, and RMB200,000,000.00 was used for temporary supplement of working capital. As at 30 June 2017, balance of proceeds amounted to RMB249,107,100.00, which included the accumulated amount of interests received from bank deposits and net gains from short-term bank wealth management products less bank handling fees and others.

# DISCUSSION AND ANALYSIS OF OPERATIONS

The capital structure of the Company consists of short-term 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 bank 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 attributable to shareholders of the Company plus net debt. At the end of the Reporting Period, the Company's gearing ratio was -10.77% (31 December 2016: -7.77%).

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

## OUTLOOK

The Company is moving ahead in the technology research and project development of intelligent steering. Prototypes of intelligent steering products developed and produced by the Company for various passenger cars and commercial cars are widely accepted. The Company has initiated cooperative projects with a number of customers. According to customers' requirements, steering products are customized with pilot assisting functions, such as automatic steering, automatic return, remote driving, lane keeping, etc., and installed in customers' sample cars for trial operation. Some of the projects have been launched in a small scale as a tryout.

### Forecast on the operating results between January and September 2017

Change in net profit attributable to shareholders of the listed company between January and September 2017	-20% to 10%
Range of change in net profit attributable to shareholders of the listed company between January and September 2017 (RMB ten thousands)	4,066.90 to 5,591.98
Net profit attributable to shareholders of the listed company between January and September 2016 (RMB ten thousands)	5,083.62

Illustrations on reasons attributable to the movements in results

Prices of certain traditional products decrease, while intelligent steering projects go through the development and testing phase with higher investment and the export business is expected to be volatile.

## 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 and software copyrights. Furthermore, in order to embrace the new opportunities and challenges on automotive component companies presented by the technology innovation in the automobile industry, the Company has pioneered the R&D associated with intelligent driving technologies.
- 2) **State-of-the-art manufacturing processes:** refined production model and the ISO:TS16949 quality certification system are adopted throughout all of the major production bases of the Company with an aim to provide customized steering system products with the most reasonable price, latest technology and supreme quality for its customers.
- 3) **Loyal and professional team:** the Company has established a flexible personnel recruitment and incentive scheme to attract domestic and overseas professionals. Our key management and technicians are loyal and has extensive experiences in the industry.

# DISCUSSION AND ANALYSIS OF OPERATIONS

- 4) High corporate governance standard: corporate governance structure and policy of the Company are established to meet listing requirements in the Mainland China and Hong Kong with transparent financial reporting and risk control practices. Therefore, our corporate governance is up to international standard.
- 5) Robust financial position and strong financing capability: as the only one automotive component company in the PRC listed both in the Mainland China and overseas, the Company boasts flexible financing methods.

## PLEDGE OF ASSETS

As at 30 June 2017, save for the assets with restricted ownership rights and rights in use as set out on page 77 of this report, the Group did not have any other material pledge on its assets.

## MATERIAL ACQUISITION AND DISPOSAL

During the Reporting Period, the Group did not have any material acquisition and disposal concerning subsidiaries and associates.

## FOREIGN CURRENCY EXPOSURE

During the Reporting Period, 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 2017, apart from the major commitments set out on page 67 of this report, the Group had no other major capital commitments.

## CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liabilities.

## EMPLOYEE AND REMUNERATION

The Group had a total of 1,877 employees as at 30 June 2017, and total staff salaries and welfares costs amounted to RMB75,987,109.55 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 2017 (30 June 2016: Nil).



## CORPORATE GOVERNANCE

For the Reporting Period, 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 Reporting Period. 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 Hong Zhi and Mr. Guo Kong Hui, independent non-executive Directors, were unable to attend the Company's extraordinary general meeting and class meetings held on 8 May 2017 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 Reporting Period.

## 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).

## 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 2017, 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 2017, 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)	139,002,612 (Long position)	60.66%	44.01%
		7,000,000 (Short position)	3.05%	2.22%
	Beneficial owner	10,556,632 (Long position)	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 139,002,612 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 139,002,612 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 139,002,612 A Shares representing 60.66% of the A Shares in issue and 44.01% of the total issued share capital of the Company and accordingly is an associated corporation of the Company.

Save as disclosed above, as at 30 June 2017, 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 2017, so far as is known to the Directors, the following persons (other than the Directors, Supervisors and chief executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Name of Shareholder	Capacity	Number and class of Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Shibao Holding	Beneficial owner (Note 1 and 2)	139,002,612 A Shares (Long position)	60.66%	44.01%
		7,000,000 A Shares (Short position)	3.05%	2.22%
Mr. Zhang	Interest in controlled corporation (Note 1 and 2)	139,002,612 A Shares (Long position)	60.66%	44.01%
		7,000,000 A Shares (Short position)	3.05%	2.22%
	Beneficial owner (Note 2)	10,556,632 A Shares (Long position)	4.61%	3.34%
Deutsche Bank Aktiengesellschaft	Beneficial owner	5,866,920 H Shares (Long position)	6.77%	1.86%
		1,728,000 H Shares (Short position)	1.99%	0.55%

Note:

- (1) As at 30 June 2017, Shibao Holding held 139,002,612 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 139,002,612 A Shares of the Company held by Shibao Holding.
- (2) Mr. Zhang's interest in these 149,559,244 A Shares of the Company, including 139,002,612 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 139,002,612 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 2017, Directors are not aware of any other person (other than the Directors, Supervisors and chief executive of the Company as disclosed above) who had an interest or short position in the shares or underlying shares of the Company as recorded in the registered to be kept under Section 336 of the SFO.

## ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

During the Reporting Period, 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

As at 30 June 2017, the Company has not implemented any share option scheme.

## COMPETING INTERESTS

During the Reporting Period, 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 Reporting Period, 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
“Articles of Association”	articles of association of the Company
“Audit Committee”	audit committee of the Company
“Beijing Autonics”	Beijing Autonics Technology Co., Ltd., a wholly-owned subsidiary of the Company since 30 November 2016
“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
“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 2017 to 30 June 2017
“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