



# 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**

Annual Report 2017



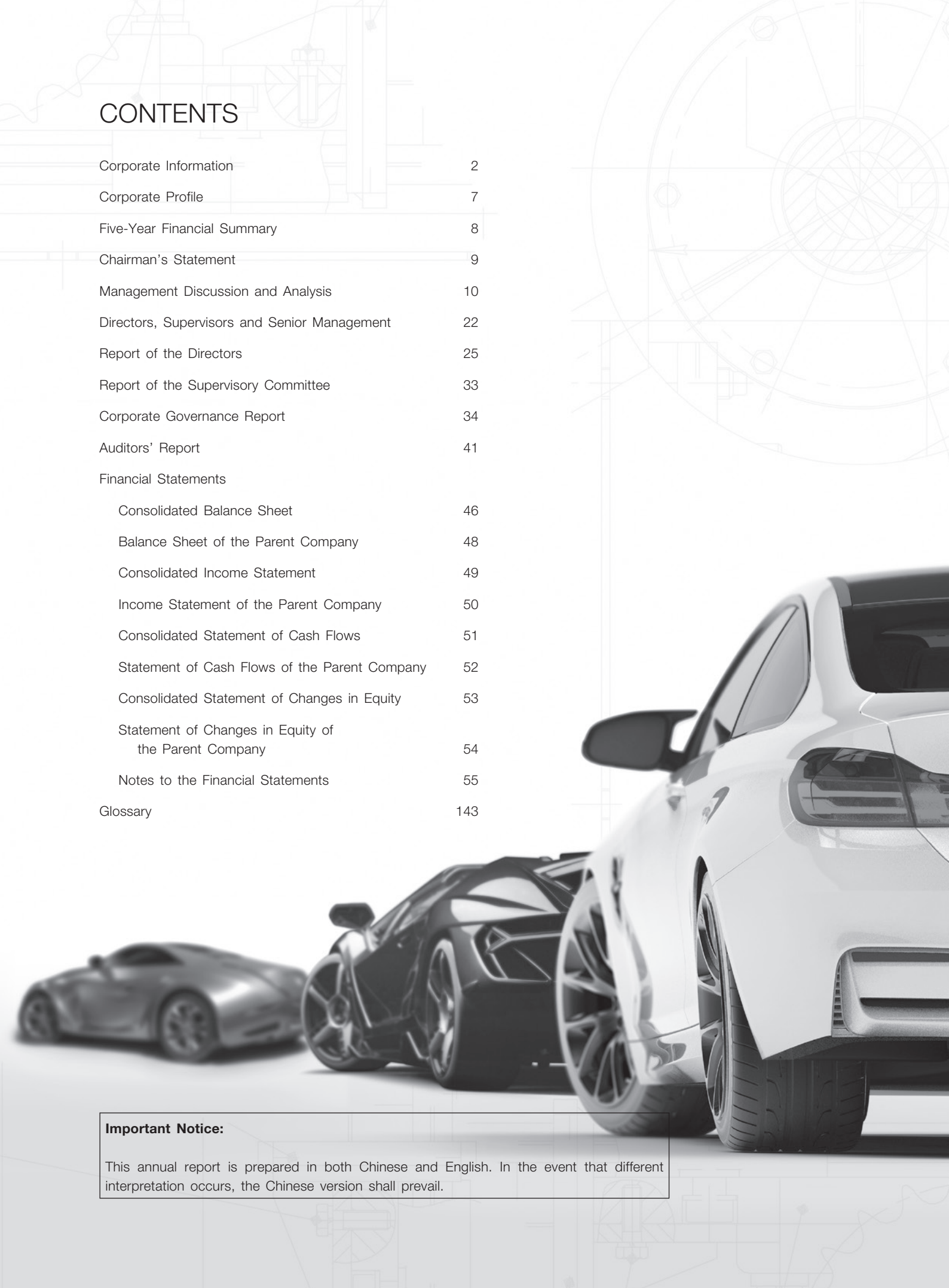
\* For identification purposes only

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## Important Notice:

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



# CORPORATE INFORMATION

(English translation for reference only)

<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</i> ) Mr. Zhang Bao Yi (張寶義) ( <i>Vice Chairman and 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

(English translation for reference only)

## Secretary of The Board

Ms. Liu Xiao Ping (劉曉平)

## Company Secretary

Ms. Huen Lai Chun (禰麗珍)

## Authorised Representatives

Ms. Zhang Lan Jun (張蘭君)

Ms. Huen Lai Chun (禰麗珍)

## Registered Office

No. 1, Shuanglin Road  
Fotang Town  
Yiwu  
Zhejiang Province  
China (Post code: 322002)

## Principal Place of Business in Hong Kong

Room 1204  
C C Wu Building  
302-308 Hennessy Road  
Wanchai  
Hong Kong

## Legal Advisers

*as to PRC law*  
King & Wood Mallesons Shanghai Office  
17th Floor, One ICC  
999 Middle Huaihai Road  
Xuhui District, Shanghai  
China

## Auditors

Pan-China Certified Public Accountants LLP  
4th-10th Floor  
Xinhu Commercial Tower  
No. 128 Xixi Road  
Hangzhou, China

# CORPORATE INFORMATION

*(English translation for reference only)*

## Principal Bankers

Agricultural Bank of China, Yiwu Branch

– Fotang Sub-branch

85 Jianshe Road, Fotang

Yiwu, Zhejiang Province, China

Industrial and Commercial Bank of China, Yiwu Branch

– Yiwu Sub-branch

128 Huangyuan Road

Yiwu, Zhejiang Province, China

China CITIC Bank

– Hangzhou Economic and Technology Development Zone Branch

Building 2, Singapore Hangzhou Technology Zone

6th Avenue

Hangzhou Economic and Technology Development Zone

Hangzhou, Zhejiang Province, China

China Zheshang Bank

– Hangzhou Yuquan Branch

52 Qiushi Road

Hangzhou, Zhejiang Province, China

Industrial and Commercial Bank of China, Siping Branch

– Zhongyang Dong Lu Sub-branch

141 Nanyijing Jie

Siping, Jilin Province, China

Industrial and Commercial Bank of China, Beijing Branch

– Zi Zhu Yuan Road Sub-branch

No. 10, Zhong Guan Cun South Road Jia

Hai Dian District

Beijing, China

# CORPORATE INFORMATION

(English translation for reference only)

## Hong Kong H Share Registrar and Transfer Office

## Contact Information

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

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

Bank of China Limited  
– Siping Zhongyang Dong Lu Sub-branch  
2055 Zhongyang Dong Lu  
Tiedong District, Siping, Jilin Province, China

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

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

## Corporate communication/Investor relations

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

# CORPORATE INFORMATION

(English translation for reference only)

## Place of Listing

## Website

### Company secretary services

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

Room 1204

C C Wu Building

302-308 Hennessy Road

Wanchai

Hong Kong

Tel.: +852 3104 8118

Fax: +852 3104 8119

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

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

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

## 1. COMPANY PROFILE

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

The Company lives up to its role of enhancing safety and comfortability for driving. The Company is committed to providing world leading automakers with safe, intelligent, energy-saving, light-weight automotive steering system. The Company strives to raise the research and development (R&D) and production capability of steering system and key components for each series of automobile model to international standard. Meanwhile, the Company is tapping into key automotive components in relation to integration modulation of steering system. Its strategic goal is to provide intelligent driving solutions and products to global leading automotive groups.

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

## 2. ANALYSIS ON CORE COMPETITIVENESS

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 four 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 is leading its domestic peers in the implementation of automotive intelligent driving, including technical R&D, experiment, trial assembly, market cultivation and promotion relevant to automatic drive.
- 2) **State-of-the-art manufacturing processes:** refined production model and the ISO:TS16949 quality certification system are adopted throughout all of the major production bases of the Company with an aim to provide customized steering system products with the most reasonable price, latest technology and supreme quality for its customers.
- 3) **Loyal and professional team:** the Company has established a flexible personnel recruitment and incentive scheme to attract domestic and overseas professionals. Our key management and technicians are loyal and has extensive experiences in the industry.
- 4) **High corporate governance standard:** corporate governance and policy of the Company are established to meet listing requirements in the mainland China and Hong Kong with transparent financial reporting and risk control practices. Therefore, our corporate governance is up to international standard.



# FIVE-YEAR FINANCIAL SUMMARY

(English translation for reference only)

A summary of the published results, assets and liabilities of the Group for the past five years ended 31 December 2017 are set out below. The relevant information were prepared on a consolidated basis and based on China Accounting Standards for Business Enterprises.

## RESULTS

	For the year ended 31 December				
	2017 RMB0,000	2016 RMB0,000	2015 RMB0,000	2014 RMB0,000	2013 RMB0,000
Revenue	<b>115,426</b>	113,640	83,772	81,124	67,460
Total profit	<b>3,232</b>	8,059	5,987	4,216	5,076
Net profit	<b>2,673</b>	6,599	5,194	3,648	4,553
Minority interests	<b>-592</b>	250	-160	-690	-329
Net profits attributable to equity holders of the parent	<b>3,266</b>	6,349	5,354	4,337	4,882
Basic earnings per share (RMB)	<b>0.0414</b>	0.0804 (Note)	0.17	0.16	0.18
Diluted earnings per share (RMB)	<b>0.0414</b>	0.0804 (Note)	0.17	0.16	0.18

Note: based on the diluted share capital as at the end of the Reporting Period

## ASSETS AND LIABILITIES

	As at 31 December				
	2017 RMB0,000	2016 RMB0,000	2015 RMB0,000	2014 RMB0,000	2013 RMB0,000
Non-current assets	<b>86,017</b>	79,511	69,321	67,495	62,945
Current assets	<b>124,425</b>	127,963	119,259	142,612	68,471
Current liabilities	<b>55,439</b>	52,661	39,108	62,089	50,070
Net current assets	<b>68,986</b>	75,302	80,151	80,524	18,401
Equity attributable to equity holders of the parent	<b>147,458</b>	147,351	144,258	142,063	74,355
Total liabilities and equity	<b>210,442</b>	207,474	188,580	210,107	131,416

# CHAIRMAN'S STATEMENT

*(English translation for reference only)*

I would like to present on behalf of the Board the report of the audited results of the Group for the year ended 31 December 2017.

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

During the Reporting Period, due to the effect of fall back of the growth rate of domestic automotive industry and the export business of the Company underperformed the expectation, the Company recorded a revenue of RMB1,154,256,267.96, representing an increase of 1.57% as compared with last year. During the Reporting Period, the gross profit of the Company's main business was RMB194,325,575.29, representing a decrease of RMB56,215,443.43 as compared with last year; the gross profit margin of the Company's main business was 17.07% (2016: 22.30%). The decrease in gross profit margin of the Company was mainly due to (1) the export sales business, which normally enjoys a higher gross profit margin, underperformed the expectation; (2) the significant increase in production and sales of EPS (電動助力轉向系統) products, however, due to the relatively high cost of certain projects at the early stage of mass production in the second half of 2017, no profit was recorded from such projects; (3) the number of pilotless intelligent steering projects recorded a significant increase, resulting in the continuous increase of the investment in the development, testing and marketing of intelligent steering by the Company; and (4) the decrease in sales prices of traditional products.

New energy automobiles and intelligent automobiles are promoting the transformation and upgrading of the automotive industry which produces a profound impact on the automotive component industry. During the Reporting Period, new records were made in production and sales volume of electric power steering system products used in energy-saving and new energy automobiles, and the number of pilotless intelligent steering development projects recorded a significant increase. In 2018, the Company plans to put its focus on the expansion of the overseas sales of hydraulic power recirculating ball steering gears and electric power steering systems, increase the market shares of the Company's steering products in local and overseas, optimize the product cost structure of the electric power steering systems and maintain the high quality of export of Daimler steering gears so as to lay a solid foundation for the increase in the portion of Daimler OEM in the later stage, and vigorously promote the application of intellectual steering gears, striving for early bulk supply.

**Zhang Shi Quan**

*Chairman*

Hangzhou, Zhejiang, the PRC  
23 March 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

*(English translation for reference only)*

## REVIEW OF CHINA AUTOMOBILE INDUSTRY

In 2017, production and sales volume of China automobile industry were 29,015,000 units and 28,879,000 units respectively, representing an increase of 3.20% and 3.00% respectively as compared with last year. Production and sales of passenger cars were 24,807,000 units and 24,718,000 units respectively, representing an increase of 1.60% and 1.40% respectively as compared with last year. Among these, sales volume of China-brand passenger cars was 10,847,000 units, representing an increase of 3.00% as compared with last year. Production and sales volume of new energy cars were 794,000 units and 777,000 units respectively, representing an increase of 53.80% and 53.30% respectively as compared with last year. Production and sales of commercial vehicles were 4,209,000 units and 4,161,000 units respectively, representing an increase of 13.80% and 14.00% respectively as compared with last year. Among commercial vehicles, production and sales volume of buses decreased by 3.80% and 3.00% respectively as compared with last year; production and sales volume of trucks both increased by 16.90% as compared with last year. The top ten automaker groups in China sold 25,562,000 units of automobiles, representing an increase of 3.20% as compared with last year. Their sales represented 88.50% of the total sales of the automobile industry, representing an increase of 0.20% as compared with last year.

## ANALYSIS OF MAIN BUSINESS

### 1) Overview

During the Reporting Period, due to the effect of fall back of the growth rate of domestic automotive industry and the export business of the Company underperformed the expectation, the Company recorded a revenue of RMB1,154,256,267.96, representing an increase of 1.57% as compared with last year.

During the Reporting Period, the gross profit of the Company's main business was RMB194,325,575.29, representing a decrease of RMB56,215,443.43 as compared with last year; the gross profit margin of the Company's main business was 17.07% (2016: 22.30%). The decrease in gross profit margin of the Company was mainly due to (1) the export sales business, which normally enjoys a higher gross profit margin, underperformed the expectation; (2) the significant increase in production and sales of EPS (電動助力轉向系統) products, however, due to the relatively high cost of certain projects at the early stage of mass production in the second half of 2017, no profit was recorded from such projects; (3) the number of pilotless intelligent steering projects recorded a significant increase, resulting in the continuous increase of the investment in the development, testing and marketing of intelligent steering by the Company; and (4) the decrease in sales prices of traditional products.

During the Reporting Period, the Company's taxes and surcharges were RMB10,062,932.55, representing an increase of 30.94% as compared with last year, which was mainly due to that stamp duty, real estate tax, land use tax, and vehicles and vessels use tax arising from the period between May and December 2016 and in 2017 were presented in "taxes and surcharges", while those arising for the period prior to May 2016 were presented in "general and administrative expenses", in accordance with the "Provisions Concerning the Accounting Treatments on Value-Added Tax" (Cai Hui No.: [2016] 22) and "Interpretation of Issues Concerning Provisions Concerning the Accounting Treatments on Value-Added Tax" of the Ministry of Finance.

During the Reporting Period, the Company's selling expenses was RMB71,112,952.13, representing an increase of 0.80% as compared with last year, which was basically same as last year.

During the Reporting Period, the Company's general and administrative expenses were RMB112,815,376.43, representing a decrease of 1.61% as compared with last year, of which research and development expenses amounted to RMB47,668,732.19, representing an increase of 15.10% as compared with last year, which was mainly attributable to the increase in research and development of new technology and new products. The Company's research and development expenses were mainly used on the technical research of automotive steering system's safety, intelligent, energy saving, light weight, in order to maintain competitiveness of the Company to support its continuous growth.

During the Reporting Period, the Company's financial expenses was RMB-519,681.98 (2016: RMB-1,835,285.41), the change was mainly due to a decrease in interest income.

# MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

During the Reporting Period, the Company's other gains amounted to RMB13,558,372.54, mainly comprises government grants. The government grants have been separately presented in the item of "other gains" under "operating profit" in the income statement since the interim financial report of 2017 according to the provisions under the revised "Accounting Standards for Business Enterprises No. 16 — Government Grants" issued by the Ministry of Finance, and therefore there was no comparable figures for the corresponding period last year. Meanwhile, the non-operating income of the Company decreased by 97.66% year on year during the Reporting Period due to the separate presentation of the government grants in the item of "other gains".

During the Reporting Period, the Company's income tax expenses amounted to RMB5,584,361.33, representing a decrease of 61.75% as compared with last year, mainly due to the decrease in total profit.

In view of the above, the Company recorded a net profit attributable to shareholders of the listed company of RMB32,656,134.48, representing a decrease of 48.56% as compared with last year.

## 2) Revenue and Cost

### (1) Revenue

	2017		2016		Change
	Amount	Proportion to revenue	Amount	Proportion to revenue	
Total Revenue	<b>1,154,256,267.96</b>	<b>100%</b>	1,136,399,277.71	100%	1.57%
<b>By industry</b>					
Manufacture of automotive components and parts	<b>1,138,328,762.71</b>	<b>98.62%</b>	1,123,616,241.32	98.88%	1.31%
Others	<b>15,927,505.25</b>	<b>1.38%</b>	12,783,036.39	1.12%	24.60%
<b>By products</b>					
Steering system and parts	<b>1,086,351,867.97</b>	<b>94.12%</b>	1,083,392,069.43	95.34%	0.27%
Parts and others	<b>51,976,894.74</b>	<b>4.50%</b>	40,224,171.89	3.54%	29.22%
Others	<b>15,927,505.25</b>	<b>1.38%</b>	12,783,036.39	1.12%	24.60%

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

	Revenue	Operating costs	Gross profit margin	Change of revenue over last year	Change of operating costs over last year	Change of gross profit margin
						over last year
<b>By industry</b>						
Manufacture of automotive components and parts	1,138,328,762.71	944,003,187.42	17.07%	1.31%	8.12%	-5.23%
<b>By products</b>						
Steering system and parts	1,086,351,867.97	900,982,744.32	17.06%	0.27%	6.98%	-5.21%

# MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

## (3) Details of production quantity, sales volume and inventory level of the Company

Industry classification	Projects	Unit	2017	2016	Change
Manufacture of automotive components and parts	Sales volume	Unit/Piece	<b>2,212,938</b>	2,183,412	1.35%
	Production quantity	Unit/Piece	<b>2,271,130</b>	2,131,228	6.56%
	Inventory level	Unit/Piece	<b>292,474</b>	234,282	24.84%

## (4) Composition of operating costs

Product	Item	2017		2016		Change
		Amount	Proportion to operating costs	Amount	Proportion to operating costs	
Steering system and parts	Raw materials	<b>652,858,279.77</b>	<b>72.46%</b>	600,099,385.54	71.25%	1.21%
	Labour costs	<b>64,233,270.59</b>	<b>7.13%</b>	66,329,671.34	7.88%	-0.75%
	Manufacturing expenses	<b>183,891,193.96</b>	<b>20.41%</b>	175,738,530.46	20.87%	-0.46%

## 3) Research and Development Investments

The Company focuses its R&D resources on the technical research of automotive steering system's safety, intelligent, energy saving, light weight, including new energy car and smart car related technologies.

	2017	2016	Change
Number of R&D staff (person)	<b>273</b>	253	7.91%
Proportion of R&D staff	<b>14.48%</b>	13.51%	0.97%
Amount of R&D investments (Yuan)	<b>47,668,732.19</b>	41,416,415.87	15.10%
Share of R&D investments in operating revenue	<b>4.13%</b>	3.64%	0.49%
Amount of capitalization of R&D investments (Yuan)	-	-	-
Share of capitalized R&D investment in R&D investments	-	-	-

# MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

## 4) Cash Flows

Item	2017	2016	Change
Sub-total of cash inflow from operating activities	<b>504,222,592.29</b>	647,420,619.35	-22.12%
Sub-total of cash outflow from operating activities	<b>542,324,990.34</b>	555,399,577.52	-2.35%
Net cash flows from operating activities	<b>-38,102,398.05</b>	92,021,041.83	-141.41%
Sub-total of cash inflow from investing activities	<b>1,578,561,415.93</b>	1,155,685,226.93	36.59%
Sub-total of cash outflow from investing activities	<b>1,466,163,055.99</b>	1,555,624,458.98	-5.75%
Net cash flows from investing activities	<b>112,398,359.94</b>	-399,939,232.05	-128.10%
Sub-total of cash inflow from financing activities	<b>132,000,000.00</b>	200,000,000.00	-34.00%
Sub-total of cash outflow from financing activities	<b>163,279,895.87</b>	260,794,840.80	-37.39%
Net cash flows from financing activities	<b>-31,279,895.87</b>	-60,794,840.80	-48.55%
Net increase in cash and cash equivalents	<b>43,095,131.05</b>	-368,718,091.39	-111.69%

During the Reporting Period, net cash flows from operating activities decreased by 141.41% as compared with last year, mainly due to the reduction in cash from sales receipts; net cash flows from investing activities increased by 128.10% as compared with last year, mainly due to the cash inflow from redemption of wealth management products at maturity; net cash flows from financing activities decreased by 48.55% as compared with last year, mainly due to the decrease in repayment of bank borrowings. In view of above, during the Reporting Period, net increase in cash and cash equivalents increased by 111.69% as compared with last year.

For the difference between net cash flows from operating activities and the net profit for the year during the Reporting Period, please refer to "Supplemental information on the statement of cash flows" set out on pages 112 and 113 in the annual report.

## 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.

	2017		2016		Change
	Amount	Proportion to total assets	Amount	Proportion to total assets	
Cash on hand and at bank	<b>184,342,739.55</b>	<b>8.76%</b>	145,160,290.11	7.00%	1.76%
Notes receivable	<b>114,302,216.24</b>	<b>5.43%</b>	162,714,933.93	7.84%	-2.41%
Accounts receivable	<b>512,761,243.71</b>	<b>24.37%</b>	398,849,055.72	19.22%	5.15%
Inventories	<b>279,634,663.89</b>	<b>13.29%</b>	244,998,559.78	11.81%	1.48%
Other current assets	<b>139,737,784.36</b>	<b>6.64%</b>	316,808,874.28	15.27%	-8.63%
Fixed assets	<b>592,681,978.24</b>	<b>28.16%</b>	599,101,741.36	28.88%	-0.72%
Construction in progress	<b>119,801,083.84</b>	<b>5.69%</b>	56,498,367.41	2.72%	2.97%
Notes payable	<b>105,976,263.36</b>	<b>5.04%</b>	118,716,837.78	5.72%	-0.68%
Accounts payable	<b>391,592,296.47</b>	<b>18.61%</b>	340,234,033.23	16.40%	2.21%

### 2) Assets with restrictions in ownership or use rights at end of the Reporting Period

Except for the assets with restrictions in ownership or use rights set out on page 114 in the annual report, the Company did not have other restrictions regarding its assets.

# MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

## 3) Financial Resources and Capital Structure

At the end of the Reporting Period, the amount of total loans and borrowings was RMB11,080,000.00 (31 December 2016: RMB9,630,000.00). Total loans and borrowings increased by RMB1,450,000.00 when compared with the beginning of the year, mainly due to the increase in guaranteed loans. RMB11,080,000.00 of the total loans and borrowings of the Company shall be repaid over 2 years but within 5 years. Loans and borrowings at fixed interest rates amounted to RMB280,000.00 (31 December 2016: RMB830,000.00).

The Company issued 38,200,000 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 RMB658,162,877.04 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 2017 was RMB54,569,039.35, and RMB200,000,000.00 was used for temporary supplement of working capital. As at 31 December 2017, balance of proceeds amounted to RMB221,812,114.58, which included the net accumulated amount of interests received from bank deposits and gains from short-term bank wealth management products less bank handling fees and others.

The capital structure of the Company consists of 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 various types of capital. The Company will balance its overall capital structure through the payment of dividends, new share issues or 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 plus net debt. At the end of the Reporting Period, the Company's gearing ratio was -11.15% (2016: -7.77%).

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

## ANALYSIS OF INVESTMENT

### 1) Use of Proceeds Raised from 2014 Non-public Issuance

#### (1) General use of proceeds

As approved by the document [2014] No.1101 issued by the China Securities Regulatory Commission and upon consent of the Shenzhen Stock Exchange, the Company, with the assistance of Caitong Securities Co., Limited, the lead underwriter, issued 38,200,000 RMB ordinary shares (A Shares) to specific parties by way of non-public issue at the issue price of RMB18.46 per share and the proceeds raised totaled RMB705,172,000.00. The proceeds, after deduction of underwriting and sponsor expenses of RMB45,125,836.00, amounted to RMB660,046,164.00 which was deposited to the custodial proceeds account by Caitong Securities Co., Limited, the lead underwriter, on 11 December 2014. Further, after deduction of the new external expenses directly related to issuance of equity securities of RMB1,883,286.96 (including accountant fees, solicitor fees and statutory information disclosure expenses), the net proceeds raised amounted to RMB658,162,877.04. Pan-China Certified Public Accountants LLP has verified the aforementioned proceeds and issued a Capital Verification Report (Tian Jian Yan [2014] No.265) with that regard.

The proceeds utilized by the Company amounted to RMB212,117,200.97 in the prior year; bank deposit interest received in the prior year, net of handling fees and others, amounted to RMB22,559,761.27; in 2017, the actual utilized proceeds amounted to RMB54,569,039.35; temporary supplement to liquidity was RMB200,000,000.00; in 2017, bank deposit interest and short-term bank wealth management products income received, net of bank handling fee and others, amounted to RMB7,775,716.59 the accumulated utilized proceeds amounted to RMB266,686,240.32 and accumulated bank deposit interest and short term bank wealth management product income, net of bank handling fee and others, amounted to RMB30,335,477.86.

# MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

As at 31 December 2017, the balance of the proceeds account amounted to RMB221,812,114.58 (including the accumulated bank deposit interest and short-term bank wealth management product income received, net of bank handling fee and others). Among them, the balance of the designated proceeds account is RMB28,605,437.34, the balance of the fixed-term account of principal-guaranteed structured deposits is RMB90,000,000.00 and the balance of short-term bank wealth management product is RMB110,000,000.00.

## (2) Projects undertaken with the raised proceeds

unit: ten thousand

Undertaken investment project(s) and use of over-raised proceeds	Changes in project (Partial change included)	Total investment undertaken with raised proceeds	Total investment after adjustment <sup>(1)</sup>	Invested amount during the reporting period	Invested amount as of the end of the period <sup>(2)</sup>	Investment progress as of the end of the period <sup>(3)=(2)/(1)</sup>	Date of project getting ready for its intended use	Achieved results during the reporting period	Achieve the intended results or not	Significant changes in project feasibility
Undertaken investment project(s)										
The increase of production of power automotive steering gears project	No	12,800	12,800	750.02	12,923.01	100.96%	2016.12.31	954.65	No	No
The precious casting and processing of automotive components project	No	20,000	20,000	1,541.38 (Note 2)	4,703.33	23.52%	2018.12.31	N/A	Note 1	No
The research and development, examination and inspection and trial production centre of automotive steering gear system project	No	4,000	4,000	387.95	4,032.67	100.82%	2016.12.31	N/A	Note 1	No
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	No	34,000	29,016.29	2,777.55 (Note 2)	5,009.61	17.26%	2018.12.31	Note 1	Note 1	No
Sub-total of undertaken investment project(s)	-	70,800	65,816.29	5,456.90	26,668.62	-	-	-	-	-
Total	-	70,800	65,816.29	5,456.90	26,668.62	-	-	-	-	-



# MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

Condition and reason of lagging behind schedule or not achieving expected return	“The increase of production of power automotive steering gears project” relates to the 2012 initial public offering and the 2014 non-public issuance fund raising project. The initial public offering fund-raising project was expected to achieve a net profit of RMB70.3524 million. Due to influences such as market change and technology upgrade, 2014 non-public issuance project was expected to achieve an adjusted net profit of RMB57.0051 million. The net profit of 2017 amounted to approximately RMB9.5465 million, mainly due to the slowdown in the growth of the industry, the worse-than-expected export business performance and the decrease in sales prices of products, which led to a drop in gross profit.
Illustration on the significant changes in project feasibility	Nil.
Amount, use and update on use of over-raised proceeds	Nil.
Change in location of fund-raising investment projects	Nil.
Adjustment on the implementation of fund-raising investment projects	Nil.
Preliminary capital and replacement of fund-raising investment projects	As of 31 December 2014, the Company had injected the preliminary capital of RMB49.7674 million from its own fund into the fund-raising investment projects. Upon review and approval in the 22nd meeting of the fourth session of the Board of the Company held on 6 February 2015, the Company used raised proceeds to replace it on 12 February 2015 and 23 March 2015 respectively.
Tentative application of idle proceeds as working capital	<p>On 14 June 2016, the 15th meeting of the fifth session of the Board of the Company considered and approved the Resolution on Utilisation of Idle Proceeds to Temporarily Supplement Working Capital (關於使用部分閒置募集資金暫時補充流動資金的議案), allowing the Company to use the idle proceeds of RMB200 million to tentatively apply as working capital for a term of 12 months commencing from the date of approval by the Board. The Company effectively utilised RMB200 million to tentatively apply as working capital. At 13 June 2017, the balance was fully transferred back to the designated proceeds account.</p> <p>On 14 June 2017, the 25th meeting of the fifth session of the Board of the Company considered and approved the Resolution on Utilisation of Idle Proceeds to Temporarily Supplement Working Capital, allowing the Company to use the idle proceeds of RMB200 million (including RMB200 million) to tentatively apply as working capital for a term of 12 months commencing from the date of approval by the Board. The Company effectively utilised RMB200 million to tentatively apply as working capital. As of 31 December 2017, the balance was yet to be transferred back to the designated proceeds account.</p>

# MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

Amount of and reason for the balance of Nil.  
proceeds from the implementation of project

Use and status of unutilised proceeds

As of 31 December 2017, the balance of unutilised proceeds of the Company amounted to RMB221.8121 million. Such balance was placed at the designated proceeds account and term deposit account, and used to purchase short-term bank wealth management products, of which RMB200 million was tentatively applied as working capital. The proceeds will continue to be applied in the implementation of fund-raising investment projects.

Issues or other conditions from the use and Nil.  
disclosure of proceeds

Note 1: Benefits of “The research and development, examination and inspection and trial production centre of automotive steering gear system project” and “The precious casting and processing of automotive components project” may not be individually assessed. “The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project” is not ready for the intended purpose.

Note 2: In 2017, the Company’s production and sales of EPS, knuckle and other precious casting all achieved year-on-year increase, where the production and sales of EPS increased 25.26% and 22.93% respectively as compared to 2016; the production and sales of knuckle increased 47.70% and 40.79% respectively as compared to 2016. Meanwhile, due to the effect of fall back of the growth rate of domestic automotive industry, there are certain excess production capacity of the above-mentioned products, and none of them have reached the full production capacity. For prudence, the actual investment progress for “The precious casting and processing of automotive components project” and “The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project” were not as planned by the Company for 2017. Currently, both the above-mentioned projects have not reached their status of available-for-use as per the original timetable, and the Company will continue to strictly implement relevant approval process and perform information disclosure obligation.

### (3) Changes in use of proceeds

The Company made no change to the use of proceeds during the Reporting Period.

## OUTLOOK INTO THE FUTURE DEVELOPMENT OF THE COMPANY

### 1) Industry landscape and trend

New energy automobiles and intelligent automobiles are promoting the transformation and upgrading of the automotive industry. The relevant domestic laws and regulations have gradually improved along with a series of supportive policies being introduced. The “Measures for Calculation of Passenger Vehicles’ Corporate Average Fuel Consumption and New Energy Automobiles” (《乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法》) will be formally implemented in 2018. The “Intelligent Automobiles Innovation Development Strategy” (《智慧汽車創新發展戰略》) studied and drafted by the National Development and Reform Commission will be publicly solicited for opinions from different sectors of the community in early 2018. Meanwhile, autonomous cars in the PRC are under open road test phase.

The transformation and upgrading of the automotive industry produces a profound impact on the automotive component industry. The automotive electronics cost accounts for a year-on-year increase of the total vehicle cost. The automotive electronics cost of pure electric sedans accounts for 65% of the total vehicle cost. The application and innovation of automotive electronics technology has played a key role in enhancing vehicle dynamics, efficiency and safety, improving safety and comfortability in driving as well as reducing vehicle emissions and fuel consumption. At the same time, it enriches entertainment, office and communications of automotive together. The electronic process of automotive components is accelerating.

# MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

## 2) Development strategy of the Company

The Company commits itself to improving safety and comfortability in driving. The Company endeavors to become a supplier to provide global leading automotive groups with safe, intelligent, energy-saving and light-duty automotive steering system and raise the R&D and production capability of steering system and key components for each series of automobile model to international standard. Meanwhile, the Company is tapping into key automotive components in relation to integration modulation of steering system. Its strategic goal is to provide intelligent driving solutions and products to global leading automotive groups. The Company will adopt a development strategy that facilitates both organic growth, and merger and acquisition. It will concentrate on the automotive component industry, particularly the area of steering system, and pioneer the development of the industry in respect of intelligent application and innovation.

## 3) Business plan

During the Reporting Period, the operating results achieved by the Company fell within the range of the results projection as publicly disclosed. During the Reporting Period, new records were made in production and sales volume of electric power steering system products used in energy-saving and new energy automobiles, and the number of pilotless intelligent steering development projects recorded a significant increase.

In 2018, the Company plans to put its focus on the expansion of the overseas sales of hydraulic power recirculating ball steering gears and electric power steering systems, increase the market shares of the Company's steering products in local and overseas, optimize the product cost structure of the electric power steering systems and maintain the high quality of export of Daimler steering gears so as to lay a solid foundation for the increase in the portion of Daimler OEM in the later stage, and vigorously promote the application of intellectual steering gears, striving for early bulk supply.

In 2018, the Company plans to promote the capacity of electric power steering system assembly and relevant key parts and components. The fund required in the above-mentioned capacity building will be mainly from the proceeds from the 2014 non-public issuance of new A Shares of the Company.

The Company will focus on capacity investment and building of relevant intelligent steering product and key control unit in respect of new energy automobile and intelligent automobile, as well as the investment and development of research and development centre of automotive intelligent technology in respect of automotive intelligent driving technology. The Company plans to apply the proceeds from the 2016 non-public issuance of new A Shares of the Company to the above-mentioned capacity building and the development of research and development centre. As of the date of this announcement, the 2016 non-public issuance of new A Shares of the Company has not been completed. Before the receipt of the proceeds from the 2016 non-public issuance of new A Shares of the Company, the Company will use its own fund for the initial development. For relevant details, please refer to "Other Important Events" set out on pages 20 and 21 in the annual report.

**Investors are reminded that the operation plan does not constitute a result guarantee of the Company to the investors. Investors should be fully aware of such risk and the difference between an operation plan and result guarantee.**

## 4) Forecast on operating results between January and March 2018

Net profit between January and March 2018 (RMB ten thousands) -1,300.00 To 0.00

Net profit attributable to shareholders of the listed issuer between January and March 2017 (RMB ten thousands) 1,794.77

Illustrations on reasons attributable to the movements in results

The Company's products are experiencing a transitional period of technical innovation and upgrading. The decrease in the selling prices of traditional products resulted in the decrease in our profits while our new products have not generated any profits so far.

## 5) Potential Risks

### 1. Risks relating to industry fluctuations

The success of automotive components and parts manufacturing industry that the Company is engaged in is subject to the development of downstream automobile industry which is exposed to greater influence by the macroeconomic cycle and the national policies. Should there be any change due to the macroeconomic fluctuations or adjustments to the national policies that results in changes of operating environment of the automobile industry, there will be also corresponding fluctuations to the automotive components and parts manufacturing industry and will in turn subject the Company to the operation risk.

### 2. Risks relating to product quality

The Company's product is the key component for automobile that determines the operability, stability and safety of the vehicle. As a result, the quality of steering gear is directly pertinent to the overall vehicular performance. Therefore, downstream customers will require the Company to provide products that in line with standards according to the related component technical agreements, quality guarantee agreements and other prevailing international and national standards as well as industrial practices. Should there arise any problems in relation to product quality, the Company will be liable to repair and replace products with defects and the Company shall bear the related cost incurred therefor. Should there exist any defects in terms of environmental protection or safety that result in recall of vehicles, other than the expenses incurred for such recall, the Company will be also subject to adverse effects on its brand, reputation, market expansion and operating results.

### 3. Risk relating to technical innovation

As the automobile industry is developing at a fast pace, automakers' requirements of automotive products in terms of safety, intelligent and energy saving are becoming higher, resulting in the requirements of corresponding technological advance and production innovation for the automotive component production industry which is a part of the automobile industry. Should the Company cannot sustain innovation of new technology and new products to cater to the upgrade requirements of automakers, the Company's market expansion and profitability would be subject to the adverse effect. In addition, the advantage of research and development is one of the key factors for the Company to maintain its competitive edges and development. Should there is any dispute arising in terms of technology, leaking of secrets in relation to technologies or loss of key technicians, this would exert adverse effect on the Company's operation.

### 4. Risk relating to downward prices

Regarding the characteristic of the industry, the overall selling prices of automotive components are subject to the price trend of downstream vehicles. Therefore, automotive component manufacturers has weaker bargaining power against the downstream automakers; In addition, the adjustment to internal product portfolio of the Company will also lead to decline in product price of per unit to some extent. The major customers of the Company are renowned automakers in the PRC. Should the prices of vehicles fall, such customers may pass on the pressure of decreasing prices of vehicles to the Company, which would influence the Company's profitability. Besides, should there be any change in product portfolio due to factors like market demand, the product price per unit may fall and in turn influence the Company's profitability.

### 5. Risk relating to price fluctuation of raw materials

The main raw materials of the Company are machined components, standard components, electronic components, blank pieces (iron castings, aluminum castings), seals, pig iron etc., and the cost of raw materials takes up the bigger portion in the cost of production. Price fluctuations of raw materials exert certain influence on production cost, gross profit margin and customers' expectation on the purchase prices. Should there be any significant changes of the prices of raw materials which is out of expectation over a period, it would expose the Company to certain operating risk.

# MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

## 6. Risk relating to higher proportion of accounts receivable

At the end of the Reporting Period, the carrying amounts of accounts receivable were at relatively high level both in terms of the absolute amounts or as a percentage of operating income, mainly attributable to the industrial characteristics and methods of sales and settlement. With the fund-raising investment projects of the Company coming into operation, the scale of the Company's businesses will further expand. Therefore, the amount of accounts receivable is likely to further rise. Should there is any failure in collection of monies or financial crisis of our customers, it would expose us to the risk of bad debts.

## 7. Risks relating to overseas market expansion

The Company's product sales are mainly concentrated in the domestic market. In recent years, the expansion of overseas markets has begun to deliver results. The Company achieved the volume export of hydraulic power rack-and-pinion steering gear and other automotive steering gear assembly products and chassis, and was qualified as a supplier of Daimler Group in connection with the global sourcing of chassis and steering gears for commercial vehicle and has achieved bulk supply. As the Company deepens its understanding of overseas markets, the Company will steadily propel the expansion of overseas markets on top of strengthening the domestic market. In the event of material adverse changes in the international political situation as well as the politics, economic environment, automobile consumption policies and international trade policies of countries and regions where the Company's products are sold, there will be an impact on the expansion of the Company's overseas markets and potentially the Company's operation results and financial conditions.

## 8. Risk relating to operation management risk arising from expansion in scale

Subsequent to the commencement of the Company's fund-raising investment projects, the Company's assets and business scale will further expand, leading to a higher requirement of the Company's operation management, market expansion and product sales and in turn heightening the complexity of its management and operation. Should the Company cannot adjust its adaptability of its existing management method in a systematic way, this would impose direct effect on the Company's development pace, operation efficiency and business results.

## 9. Risk relating to the stock market

Other than operation and financial position, the price of the Shares of the Company is also subject to factors such as international and national macroeconomic development, capital market trend, market sentiment and all kinds of material accidents. Investors are reminded to exercise prudent judgements with regard to the expected investment risks brought by the foregoing factors when considering investment in the Shares of the Company.

## MATERIAL ACQUISITION AND DISPOSAL

During the Reporting Period, there was no material acquisition and disposal of subsidiary and associated company of the Company.

## OTHER IMPORTANT EVENTS

### **Progress of 2016 non-public issue of A Shares**

On 25 December 2017, the CSRC issued the Reply on Approval Regarding the Non-public Issuance of A Shares by Zhejiang Shibao Company Limited (關於核准浙江世寶股份有限公司非公開發行股票的批復) (Zheng Jian Xu Ke [2017] No. 2379) approving the Company to issue not more than 62,146,892 new A Shares with the proposed gross proceeds not exceeding RMB0.77 billion (including RMB0.77 billion). After deduction of issuance expenses, the proceeds will be invested in "The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project" (新增年產120萬台套汽車智慧轉向總成技術改造項目), "The annual production of 100,000 medium and heavy duty commercial vehicles intelligent steering industrialization development project" (年產10萬套中重型商用車智慧轉向產業化建設項目), "The automotive intelligent control unit industrialization project" (汽車智慧控制單元產業化項目) and "The research and development centre of automotive intelligent technology project" (汽車智慧技術研發中心項目).

# MANAGEMENT DISCUSSION AND ANALYSIS

*(English translation for reference only)*

For details of the non-public issue of the Company, please refer to (i) the announcements of the Company dated 24 October 2016, 26 December 2016, 9 March 2017, 14 March 2017, 20 March 2017, 7 April 2017, 24 May 2017, 20 July 2017, 1 August 2017, 10 August 2017, 22 August 2017, 13 September 2017, 24 October 2017, 21 November 2017, 22 November 2017, 12 December 2017 and 5 January 2018; (ii) the circulars of the Company dated 23 November 2016, 12 April 2017 and 10 November 2017 in relation to, among other things, the proposed non-public issuance of A Shares; and (iii) the announcements of the Company dated 12 December 2016 and 8 May 2017 in relation to, among other things, the poll results of the extraordinary general meetings and the class meetings for holders of H Shares of the Company held on 12 December 2016 and 8 May 2017, respectively.

As at the date of this report, the non-public issue of A Shares of the Company has not been completed. The completion of it remains uncertain.

## 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 31 December 2017, apart from the commitments set out on page 131 in the annual report, the Group has no other major capital commitments.

## CONTINGENT LIABILITIES

As at 31 December 2017, the Group has no material contingent liabilities.

## EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 1,886 employees as at 31 December 2017 (2016: 1,873). For the Reporting Period, total staff salaries and welfares costs amounted to RMB156,733,693.93 (2016: RMB149,844,214.48). The Group provided substantial remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC. Details on the standard of determining the remuneration of directors, supervisors and senior management of the Company are set out on page 29 in the annual report.

Our Company and its subsidiaries make contributions to municipal government retirement scheme for their respective qualified employees in the PRC. According to applicable PRC laws, both employers and employees are required to make contributions to the scheme at the specified rates pursuant to the rules of the scheme. The only obligation of our Company and its subsidiaries with respect to the scheme is to make the required contributions. The contributions payable under the scheme were properly accrued for the year ended 31 December 2017.

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

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

*(English translation for reference only)*

## EXECUTIVE DIRECTORS

Mr. Zhang Shi Quan (張世權), aged 68, is the Chairman of the Company. He is a Chinese national with no permanent residence abroad. He is a senior economist. Since 12 June 2004, he has been appointed as the Chairman of the Company. From 12 June 2004 to 27 December 2017, Mr. Zhang was the General Manager of the Company. Mr. Zhang was awarded the title of “China Outstanding Private Entrepreneurs” (中國優秀民營企業家). He was also awarded “Top Ten Distinguished Persons for the Second Year for China’s Industrial Economy” (第二屆中國工業經濟年度十大傑出人物) granted by the Office for Election of Distinguished Persons for China’s Industrial Economy (中國工業經濟年度人物評選辦公室) in 2006. Mr. Zhang’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Zhang is also a director of Shibao Holding; an executive director of Hangzhou Shibao and Siping Steering; the chairman of Wuhu Sterling; and a director of Jilin Shibao, Hangzhou New Shibao and Beijing Autonics. Mr. Zhang Shi Quan is the elder brother of Mr. Zhang Shi Zhong and is the father of Mr. Zhang Bao Yi and Ms. Zhang Lan Jun. Mr. Zhang Shi Quan is the father-in-law of Mr. Tang Hao Han. Shibao Holding is the Controlling Shareholder of the Company, of which Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Mr. Zhang Shi Zhong are the actual controllers.

Mr. Zhang Bao Yi (張寶義), aged 45, is a vice Chairman and the General Manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor’s degree. Since 12 June 2004, he has been appointed as a vice Chairman and since 28 December 2017, he has been appointed as the General Manager of the Company. From 12 June 2004 to 27 December 2017, Mr. Zhang was the deputy general manager of the Company. Mr. Zhang was granted the title of “Labour Model of Yiwu City” (義烏市勞動模範) in 2004. Mr. Zhang’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Zhang is also the chairman of Hangzhou New Shibao and Beijing Autonics; a director of Wuhu Sterling; and the general manager of Hangzhou Shibao. The relationship between Mr. Zhang Bao Yi and the Directors and Controlling Shareholder of the Company is disclosed in the foregoing paragraph about Mr. Zhang Shi Quan.

Mr. Tang Hao Han (湯浩瀚), aged 50, is a vice Chairman and deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a doctor’s degree. Since 12 June 2004, he has been appointed as vice Chairman and deputy general manager of the Company. Mr. Tang was awarded the “Outstanding Entrepreneur of Jilin Province” (吉林省優秀企業家), “Labour Model of Jilin Province” (吉林省勞動模範), “National Outstanding Youth Entrepreneur Leader” (全國青年興業領頭人), “Outstanding Entrepreneur of National Privately-Owned Technological Enterprises” (全國優秀民營科技企業家) and “National Labour Day Medal” (國家「五一」勞動獎章). Mr. Tang’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Tang is also the chairman of Jilin Shibao. The relationship between Mr. Tang Hao Han and the Directors and Controlling Shareholder of the Company is disclosed in the foregoing paragraph about Mr. Zhang Shi Quan.

Ms. Zhang Lan Jun (張蘭君), aged 43, is the finance Director of the Company. She is a Chinese national with no permanent residence abroad. She has a master’s degree. Since 12 June 2004, she has been appointed as the finance Director of the Company. Ms. Zhang has over 10 years of experience in finance and accounting. Ms. Zhang’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Ms. Zhang is also a finance manager of Hangzhou Shibao. The relationship between Ms. Zhang Lan Jun and the Directors and Controlling Shareholder of the Company is disclosed in the foregoing paragraph about Mr. Zhang Shi Quan.

## NON-EXECUTIVE DIRECTORS

Mr. Zhu Jie Rong (朱頡榕), aged 70, is a Director of the Company. He is a Chinese national with no permanent residence abroad. He has a college’s degree and is an engineer. Since 12 June 2004, he has been appointed as a Director of the Company. From 12 June 2004 to 31 December 2012, he was a deputy general manager of the Company. Mr. Zhu’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Zhu is also a supervisor of Shibao Holding.

Mr. Zhang Shi Zhong (張世忠), aged 57, is a Director of the Company. He is a Chinese national with no permanent residence abroad. Since 12 June 2004, he has been appointed as a Director of the Company. Mr. Zhang’s current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Zhang is also the chairman of Shibao Holding. The relationship between Mr. Zhang Shi Zhong and the Directors and Controlling Shareholder of the Company is disclosed in the foregoing paragraph about Mr. Zhang Shi Quan.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

*(English translation for reference only)*

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Hong Zhi (張洪智), aged 52, is an independent Director of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is an economist. Mr. Zhang has over 20 years of experience in areas of banking, securities and investment. Mr. Zhang is currently an independent consultant. Since 20 June 2011, Mr. Zhang has been appointed as an independent Director of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018.

Mr. Guo Kong Hui (郭孔輝), aged 83, is an independent Director of the Company. He is a Chinese national with no permanent residence abroad, has a Bachelor's degree. Mr. Guo is a professor, PHD supervisor, academician of China Academy of Engineering (中國工程院院士). Currently, Mr. Guo is Honorary President of College of Automotive Engineering of Jilin University (吉林大學汽車工程學院名譽院長), Chairman of Technology Committee of Vehicle Dynamics Sub-Committee of National Automotive Standardization Technical Committee (全國汽車標準化技術委員會車輛動力學分會技術委員會主任委員), a specially invited member of Specialists Committee of China Machinery Industry Federation (中國機械工業聯合會專家委員會特邀委員), a specially invited director of China Mechanical Engineering Society (中國機械工程學會特邀理事), a member of National Auto Calculation Platform Engineering Strategic Guidance Team of China Ministry of Industry and Information Technology (中國工業和資訊化部「國家汽車計算平台工程戰略指導組」成員), a honorary member of China Association for Science and Technology (中國科學技術協會榮譽委員), an advisor of Society of Automotive Engineers of China (中國汽車工程學會顧問) and an advisor of Academic Committee of State Key Laboratory of Automotive Simulation and Control (汽車動態模擬國家重點實驗室學術委員會顧問). Mr. Guo is also an independent director of Hualing Xingma Automobile (Group) Co., Ltd. (a company listed on Shanghai Stock Exchange). In 2013, Mr. Guo was selected as one of the "Ten Outstanding Contributed Person of the 60th Anniversary of China Automobile Industry" (中國汽車工業60周年10位卓越貢獻人物). Since 30 June 2014, Mr. Guo has been appointed as an independent Director of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018.

Mr. Shum Shing Kei, aged 47, an independent Director of the Company, with Chinese nationality and being a permanent citizen of Hong Kong Special Administrative Region of the People's Republic of China, holds a postgraduate degree. Mr. Shum graduated from the Hong Kong Polytechnic University majored in accountancy and obtained a master's degree in financial management from University in London, the United Kingdom. Mr. Shum is a fellow member of the Hong Kong Institute of Certified Public Accountants. Since September 2010, Mr Shum has acted as a practicing partner of CC Alliance CPA & Co. Mr. Shum is currently an independent director of Nanjing Sample Technology Company Limited, a company listed on the Main Board of Hong Kong Stock Exchange and China Futex Holdings Limited, a company listed on GEM of Hong Kong Stock Exchange. Since 30 June 2015, Mr. Shum has been appointed as an independent Director of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018.

## SUPERVISORS

Mr. Du Min (杜敏), aged 63, is the chairman of the Supervisory Committee of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree. Since 2002, he was appointed as an assistant to general manager of Siping Steering. Since 1 June 2007, Mr. Du has been appointed as the chairman of the Supervisory Committee of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Du is also a supervisor of Siping Steering.

Mr. Yang Di Shan (楊迪山), aged 79, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is a senior engineer. Mr. Yang retired from FAW Group in 1998. Since 5 June 2009, Mr. Yang has been appointed as a Supervisor of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018. Mr. Yang is also a director of Shibao Holding.

Mr. Wu Lang Ping (吳琅平), aged 55, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a college's degree. Since 1993, he has been appointed as a manager of technical and process department of Hangzhou Shibao. Since 5 June 2009, he has been appointed as a Supervisor of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018.

Mr. Shen Song Sheng (沈松生), aged 80, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He retired from the Company in 2009. Since 12 June 2004, Mr. Shen has been appointed as a Supervisor of the Company. His current term was effective from 30 June 2015 and is valid till 30 June 2018.



# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

*(English translation for reference only)*

Ms. Feng Yan, aged 53, is a Supervisor of the Company. She is a Chinese national with no permanent residence abroad. She has a bachelor's degree and is an associate professor. She has served as a professor at the Zhejiang University of Finance and Economics since September 2000. Since 30 June 2015, Ms. Feng has been appointed as a Supervisor of the Company. Her current term was effective from 30 June 2015 and is valid till 30 June 2018.

## SENIOR MANAGEMENT

Mr. Yu Zhong Chao (虞忠潮), aged 53, is a deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is an engineer. Since 11 August 2006, he was appointed as a deputy general manager of the Company.

Ms. Liu Xiao Ping (劉曉平), aged 47, is a deputy general manager and the Board secretary of the Company. She is a Chinese national with no permanent residence abroad. She has a master's degree. Since 2006, she was appointed as a director of securities and investment department of the Company. Since 13 May 2011, she was appointed as the Board secretary of the Company. Since 27 December 2013, she was appointed as a deputy general manager and the Board secretary of the Company.

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

Ms. Huen Lai Chun (禰麗珍), aged 52, is the company secretary of the Company. Since May 2009, she has been appointed as the company secretary and authorised representative of the Company under the Listing Rules of Hong Kong Stock Exchange. Ms. Huen is a fellow of The Association of Chartered Certified Accountants, and an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Huen has over 10 years of professional experience in company secretarial work, professional auditing, accounting and financial management.

The Board hereby presents the annual report and audited financial statements of the Group for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group has committed itself to the research and development of automotive steering gear products and mainly engaged in the develop, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The activities of its subsidiaries are set out on page 120 in the annual report. Analysis of operating segment is set out on page 131 in the annual report. Further discussion and analysis of businesses required under Schedule 5 to the Hong Kong Companies Ordinance, including the discussion on the major risks and uncertainties that the Group is subject to and the indication of likely development of the Group's business in the future, is set out in the "Management Discussion and Analysis" on pages 10 to 21 in the annual report. These discussions form part of this "Report of the Directors".

### **Important events after the Reporting Period**

The Company has no important events after the Reporting Period.

### **Environmental policies and performance**

The Company discharged its responsibility in environmental protection through technical and performance upgrade of its products, production process optimization, and enhancement in management standard.

#### Green production

The Company insists on the principle of unification of economic benefits and environmental benefits, and through actively using low-toxic, low-harmful, non-toxic and harmless raw materials in process design, adopting energy-saving and low-noise equipment and new technologies that are less polluting and pollution-free to minimize the production of pollutants in the production process.

In the course of production and operation of the Company, the main emissions are waste water, waste gas and waste materials. The Company established an emission management system and invested in the construction of environmental protection facilities. In 2017, the Company invested more than RMB1 million in the reconstruction of the sewage treatment tank equipment and the waste gas treatment equipment. The discharged sewage and waste gas all meet the requirements of the environmental protection department of the local government. Moreover, due consideration on consumption of water, power, raw materials and other natural resources had been given by the Company during the whole production process in various aspects including process design, equipment procurement, construction of facilities and field management etc., so that the consumption of non-recyclable and non-renewable resources could be minimized.

#### Improvement in production technology

Scientific and technological innovation is the eternal theme of the Company's development. The Company attaches great importance to the research and development of products. In order to guarantee the smooth progress of research and development of new products and technological innovation, the Company's annual research and development investment exceeds 3% of sales revenue. The Company has provincial-level technology centers, provincial-level research institutes and provincial post-doctoral workstations. It gathers a group of experts, outstanding technical talents and consultants in the field of automobile steering systems in China and is committed to the reserve and development of mainstream technology and smart steering system technology for existing automotive power steering systems. The Company recently launched electric power steering (EPS) system product, which is powered by rechargeable batteries and with dynamo as its power generating unit, is capable of operating separately from the automobile engine and its fuel consumption drawn from the engine can be close to none. With its electronic mode of control, the EPS system almost does not cause any pollution problem to the environment and achieves further decrease in fuel consumption.

Hangzhou Shibao, a subsidiary of the Company, has obtained ISO14001 environmental management system certification. The Company plans to promote related certifications to other subsidiaries gradually.

# REPORT OF THE DIRECTORS

*(English translation for reference only)*

## **Compliance with laws and regulations**

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

## **Relationship with stakeholders**

With provision of quality products and services, the Company creates value for its customers, employees and Shareholders with an aim to become a public company with social commitment. Meanwhile, the Board of the Company considers that good relationship is maintained by the Company and its employees.

## **RESULTS**

Results of the Group for the year ended 31 December 2017 are set out on page 49 in the annual report.

## **FIVE-YEAR FINANCIAL SUMMARY**

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

## **PROFIT DISTRIBUTION**

As considered and approved at the Board meeting held on 23 March 2018, the Board proposed not to declare cash dividend, issue bonus shares or increase capital by transferring from capital reserve fund. The profit distribution proposal is subject to approval at the 2017 annual general meeting of the Company.

During the Reporting Period, the Company did not pay any interim dividends to Shareholders.

## **Reasons for not distributing profits**

The Company is mainly engaged in the provision of customized products such as automotive steering assembly products and relevant components to automobile manufacturers meeting their technology and quality requirements. The Company has accumulated over 30 years of experience in OEM supply in automobile industry with diverse customer resources worldwide, enabling the Company to become a Tier-1 OEM supplier among the automakers with good reputation.

In light of the characteristics of the automobile industry, the Company usually grants its customers a credit period ranging from three to six months. Meanwhile, as the steering assembly are customized development products with long preliminary development and experiment cycles, a lot of start-up expenses will be incurred. These products have a higher percentage of special parts, which make stocking complicated. This requires the Company to have sufficient working capitals for daily operation.

In recent years, the automobile industry is developing towards digitalization and intelligent steering. The product mix of the Company is transferring from traditional fuel-driven automobile to hydraulic power steering gears and expanding to new energy automobiles and energy-saving automobiles under the electric power steering (EPS) system. The Company has also achieved fruitful advancements in intelligent steering technology and the research and development of products in intelligent steering automobiles, and unmanned automobiles. The Company is expected to invest additional working capital in an attempt to facilitate market expansion with special focus on the development of new products and new customers. Meanwhile, the Company also needs to invest further capital for product development and testing so as to secure more new projects.

Therefore, in comprehensive consideration of the characteristics of industry where the Company operates, the Company's own operation conditions and development stage, the Board of the Company is of the opinion that the Company is in a critical stage of product technology innovation and upgrade, and is required to invest substantial funds to various innovative operation activities, accordingly, it will be in the long-term interest of the Company to retain profits for future operation and development. Meanwhile, sustainable development of the Company is conducive to safeguarding the interests of Shareholders as a whole, especially the minority Shareholders of the Company. Thus, the Board of the Company proposed not to declare cash dividend, issue bonus shares or increase capital by transferring from reserves for 2017.

## **Use and using plan of the undistributed profits of the Company**

The undistributed profits of the Company in 2017 will roll over to the following year to fulfil the Company's requirement for general working capital and future profit distribution. In the future, the Company will attach great importance to providing returns to its Shareholders by ways of cash dividends as always, making reference to various factors relating to profit distribution and from a prospective which is beneficial to the development of the Company and generating returns to Shareholders, and actively implement its profit distribution policies in strict compliance with relevant laws and regulations and the Articles of Association, thus sharing the results of the Company's development with investors.

## **SHARE CAPITAL**

Details of changes of the Company's share capital during the Reporting Period are set out in note 5.(1)24 to the notes to the consolidated financial statements in the annual report.

## **EQUITY-LINKED AGREEMENTS**

There were no equity-linked agreements existed or entered into by the Group during the Reporting Period.

## **CONVERTIBLE DEBENTURES**

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

## **RESERVES**

Reserves of the Group and its changes during the Reporting Period prepared in accordance with China Accounting Standards for Business Enterprises are set out in the Consolidated Statement of Changes in Equity, and details of the relevant reserves are set out in notes 5.(1)25, 26 and 27 to the notes to the consolidated financial statements in the annual report.

## **DISTRIBUTABLE RESERVE**

As at 31 December 2017, the Company's distributable reserve is RMB364,772,936.30 (2016: RMB367,854,898.00), and the relevant details are set out in note 5.(1)27 to the notes to the consolidated financial statements in the annual report.

## **PROPERTIES, PLANT AND EQUIPMENT**

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

## **BORROWINGS**

Details of the Group's bank and other borrowings as at 31 December 2017 are set out in note 5.(1)22 to the notes to the consolidated financial statements in the annual report.

# REPORT OF THE DIRECTORS

(English translation for reference only)

## DIRECTORS AND SUPERVISORS

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

### Executive Directors

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

### Non-executive Directors

Mr. Zhang Shi Zhong (張世忠)  
Mr. Zhu Jie Rong (朱韻榕)

### Independent Non-executive Directors

Mr. Zhang Hong Zhi (張洪智)  
Mr. Guo Kong Hui (郭孔輝)  
Mr. Shum Shing Kei (沈成基)

### Supervisors

Mr. Du Min (杜敏)  
Mr. Yang Di Shan (楊迪山)  
Mr. Wu Lang Ping (吳琅平)  
Mr. Shen Song Sheng (沈松生)  
Ms. Feng Yan (馮燕)

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

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

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

## REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the remuneration of Directors, Supervisors and the five highest paid employees during the Reporting Period are set out on pages 129 and 130 in the annual report.

During the Reporting Period, the remuneration of senior management disclosed by band is as follows: —

Remuneration by band	Number of person
HK\$1 — HK\$1,000,000	2

# REPORT OF THE DIRECTORS

(English translation for reference only)

## STANDARDS FOR DETERMINING THE REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Upon authorized by Shareholders in general meeting, the Board shall determine the specific amounts of remunerations of Directors and Supervisors. Remuneration of the senior management of the Company will be specifically fixed by the Board.

The Remuneration Committee will make recommendations on remuneration of individual Directors, Supervisors and senior management to the Board after reviewing the remuneration paid by comparable companies, the time required and the duties of the individuals concerned as well as the employment terms of other positions within the Company.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2017 are set out in note 8.(2) to the notes to the financial statements on page 128 in the annual report. These related party transactions are not those discloseable connected transactions governed by Chapter 14A of the Listing Rules.

The Company has no transactions which are subject to the connected transaction disclosure requirements under the Listing Rules of Hong Kong Stock Exchange for the year ended 31 December 2017. The Company has complied with the disclosure requirements under Chapter 14A 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 31 December 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 to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

### (1) Long positions and short 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 ( <i>Note</i> )	343,948,002 (Long positions)	60.04%	43.56%
		17,500,000 (Short positions)	3.05%	2.22%
	Beneficial owner	26,391,580 (Long positions)	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 343,948,002 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 343,948,002 A Shares held by Shibao Holding.

# REPORT OF THE DIRECTORS

(English translation for reference only)

## (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 Shi Quan	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 343,948,002 A Shares, representing 60.04% of A Shares in issue and 43.56% of the total issued share capital of the Company, and accordingly is an associated corporation of the Company.

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

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, so far as is known to the Directors of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions and short positions in Shares of the Company:

Name of Shareholder	Capacity	Number and class of shares	Approximate percentage of shareholding in same class of shares	Approximate percentage in the Company's total issued share capital
Shibao Holding	Beneficial owner (Note 1&2)	343,948,002 A Shares (Long positions)	60.04%	43.56%
		17,500,000 A Shares (Short positions)	3.05%	2.22%
Mr. Zhang Shi Quan	Interest in controlled corporation (Note 1&2)	343,948,002 A Shares (Long positions)	60.04%	43.56%
		17,500,000 A Shares (Short positions)	3.05%	2.22%
	Beneficial owner (Note 2)	26,391,580 A Shares (Long positions)	4.61%	3.34%

# REPORT OF THE DIRECTORS

*(English translation for reference only)*

## *Note:*

- (1) As at 31 December 2017, Shibao Holding owned 343,948,002 A Shares. As Mr. Zhang Shi Quan holds 40% interest in the registered capital of Shibao Holding, Mr. Zhang is deemed to be interested in all of the 343,948,002 A Shares held by Shibao Holding.
- (2) The interest of Mr. Zhang Shi Quan interest in these 370,339,582 A Shares of the Company, including 343,948,002 A Shares owned by Shibao Holding and 26,391,580 A Share directly owned by himself, are also disclosed in the paragraph headed "Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, underlying Shares and debentures of the Company and its associated corporations". These 343,948,002 A Shares owned by Shibao Holding represent the same interest and therefore duplicate amongst Shibao Holding and Mr. Zhang.

Save as disclosed above, as at 31 December 2017, the Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

## 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

For the year ended 31 December 2017, the Company has not implemented any share option scheme.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

## 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.

## PERMITTED INDEMNITY PROVISION

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

## MANAGEMENT CONTRACTS

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



# REPORT OF THE DIRECTORS

*(English translation for reference only)*

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, purchases attributable to the Group's five largest suppliers and revenue attributable to the five largest customers represented 28.32% and 56.48% of the Group's total purchases and total revenue respectively. In addition, the largest supplier and the largest customer represented 10.58% and 14.38% of the Group's total purchases and revenue respectively.

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

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

During the Reporting Period, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company.

## PRE-EMPTIVE RIGHTS

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

## PUBLIC FLOAT

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

## CORPORATE GOVERNANCE

The Corporate Governance Report adopted by the Company is set out on pages 34 to 40 in the annual report.

## AUDITORS

The Company has not changed auditors in the past 3 years.

The financial statements for the year ended 31 December 2017 have been audited by Pan-China Certified Public Accountants LLP.

By order of the Board

**Zhang Shi Quan**

*Chairman*

Hangzhou, Zhejiang, the PRC

23 March 2018

# REPORT OF THE SUPERVISORY COMMITTEE

*(English translation for reference only)*

To all Shareholders:

For the year 2017, the Supervisory Committee carefully discharged its duties in strict compliance with the related provisions of the Company Law of the PRC, the Stock Listing Rules of Shenzhen Stock Exchange, the Listing Rules of Hong Kong Stock Exchange, the Articles of Association and the Organization and Procedural Rules and Regulations for the Meetings of the Supervisory Committee.

During the Reporting Period, the Supervisory Committee held five meetings and passed four written resolutions, attended Board meetings and Shareholders' meeting, and heard reports regarding the finance and profit distribution, connected transactions, operating results and the use of proceeds of the Company. Through the aforementioned work, the Supervisory Committee reinforced its supervision over the financial staff and senior management of the Company during their discharge of duties, improved the effect of supervision and protected the interests of Shareholders and the Company.

The Supervisory Committee is of the view that all members of the Board and other senior management of the Company have honestly and diligently discharged their duties, strived to maintain the interests of Shareholders and made great efforts to the operating results of the Company in 2017. No violation of laws and regulations of the PRC or the place of listing and the Articles of Association of the Company have been discovered during the discharge of their duties. The Supervisory Committee has no dissenting view over the supervisory matters during the Reporting Period, the Supervisory Committee is optimistic about the prospect of the Company.

Having reviewed the financial statements for the year ended 31 December 2017 prepared by Pan-China Certified Public Accountants LLP based on China Accounting Standards for Business Enterprises, the Supervisory Committee is of the view that the financial statements provide an objective, true and full view of the financial position and operating results of the Company.

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

By order of the Supervisory Committee

**Du Min**

*Convenor of the Supervisory Committee*

Hangzhou, Zhejiang, the PRC

23 March 2018

# CORPORATE GOVERNANCE REPORT

*(English translation for reference only)*

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interest of all of its stakeholders. The Company's commitment to the highest standards of corporate governance is driven by the Board who, led by the Chairman, assume overall responsibility for the governance of the Company, taking into account the interests of the Company's stakeholders, the development of its business, and the changing external environment. This report describes how the principles of the CG Code have applied during the year ended 31 December 2017 under different aspects.

During the Reporting Period, the Company had been in compliance with the majority of the code provisions set out in the CG Code with the exception of code provision A.2.1, A.1.8 and A.6.7.

Under code provision A.2.1, the roles of the chairman and the chief executive shall be separated, and shall not be undertaken by the same individual. Since 28 December 2017, Mr. Zhang Shi Quan, the Chairman of the Company, resigned as General Manager of the Company, and Mr. Zhang Bao Yi, the Vice Chairman and Deputy General Manager of the Company, was appointed as General Manager of the Company. In the past, Mr. Zhang Shi Quan served as the Chairman and General Manager of the Company, who was responsible for overseeing the overall strategic planning, new business development, acquisition and merging, and it was effective in making response over market changes and finalization of strategic plans.

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

Under code provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Some of the independent non-executive Directors and other non-executive Directors were unable to attend the Company's general meetings and class meetings held in 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 and as of the publication date of this annual report.

## COMPOSITION OF THE BOARD AND BOARD PRACTICES

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

The Board holds regular board meetings at least four times each year. During the Reporting Period, the Board held seven meetings in total.

# CORPORATE GOVERNANCE REPORT

(English translation for reference only)

Meeting attendance records of Directors and committees' members during the Reporting Period are as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment and Strategy Committee	General Meetings
Number of Meetings	7	5	1	1	1	9
<b>Executive Directors</b>						
Zhang Shi Quan	7/7				1/1	9/9
Zhang Bao Yi	7/7				1/1	6/9
Tang Hao Han	7/7				1/1	0/9
Zhang Lan Jun	7/7			1/1		3/9
<b>Non-executive Directors</b>						
Zhang Shi Zhong	7/7	5/5	1/1			9/9
Zhu Jie Rong	7/7					3/9
<b>Independent non-executive Directors</b>						
Zhang Hong Zhi	7/7	5/5	1/1	1/1		3/9
Guo Kong Hui	7/7					0/9
Shum Shing Kei	7/7	5/5	1/1	1/1		3/9

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

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

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

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

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

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

# CORPORATE GOVERNANCE REPORT

*(English translation for reference only)*

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

## FUNCTIONS OF CORPORATE GOVERNANCE

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

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

## INDUCTION AND DEVELOPMENT

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

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

## RISK MANAGEMENT AND INTERNAL CONTROL

The objective of internal control of the Company is to reasonably ensure the legality and compliance of the operation and management, the security of the assets, and the truthfulness and completeness of the financial report and its relevant information, to improve operating efficiency and effectiveness, and to promote the accomplishment of the development strategy.

In compliance with and on the basis of the Basic Standards for Internal Control of Companies (《企業內部控制基本規範》) issued by the Ministry of Finance (財政部), China Securities Regulatory Commission (證監會), the National Audit Office (審計署), China Banking Regulatory Commission (銀監會) and the China Insurance Regulatory Commission (保監會), the Company has formulated the Internal Audit Framework. The term "internal audit" as appeared in the framework refers to a review exercise being conducted by the internal audit department on the effectiveness of internal control and risk management, truthfulness, completeness of financial information as well as the efficiency and effectiveness of operating activities of entities within the Company, subsidiaries in whose we hold controlling interests and companies in whose we hold equity interests and which have significant impact on us, in accordance with relevant laws and regulations of the PRC and as stipulated in the framework. The term "internal control" as appeared in the framework refers to a series of control measures being implemented jointly by our Board, the management and all staff members, aiming to give a reasonable assurance that the Company's internal control objectives can be achieved. The Board of the Company is responsible for the establishment of a sound internal control system and its effective implementation. Any internal control systems with significant effect will need to be reviewed and approved by the Board.

# CORPORATE GOVERNANCE REPORT

*(English translation for reference only)*

An audit department has been established under the Audit Committee to take up auditing work independently under the supervision of the Audit Committee. The audit department is accountable to the Audit Committee and should report its work to the Audit Committee. In directing and supervising the audit department on its work, the Audit Committee would perform, amongst others, the following principal duties:

1. to direct and supervise the establishment and implementation of the internal audit framework;
2. to convene meetings, at least on a quarterly basis, to consider the work plans and reports submitted by the audit department; and
3. to report to the Board, at least on a quarterly basis, about matters including but not limited to the progress and quality of and material issues identified during the internal audit.

The principal duties of the audit department are, amongst others:

1. to conduct review and assessment on the completeness, reasonableness and effectiveness of the internal control frameworks of entities within the Company, subsidiaries in whose we hold controlling interests and companies in whose we hold equity interests and which have significant impact on us;
2. to report to the Audit Committee, at least on a quarterly basis, matters including but not limited to an update on the implementation of internal audit plan and problems identified during the internal audit; and
3. to conduct proper review process in accordance with the relevant rules to assess the effectiveness of the Company's internal control, and to submit an internal control evaluation report, at least once a year, to the Audit Committee. Such review report shall give an account of the objective and scope of the review and assessment, conclusion of audit and recommendations on how internal control can be improved.

The Board acknowledges that it bears the responsibility for the internal control, financial control and risk management of the Group and is also responsible for reviewing their effectiveness from time to time. Such systems are designed to manage rather than eliminate the risk of failure to achieve our business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

As stipulated in the Basic Standards for Internal Control of Companies, the Board of the Company bears the responsibility to establish a sound internal control system and put it in place while assessing its effectiveness, and truthfully disclose its evaluation report on internal control. The Supervisory Committee shall monitor the establishment and implementation of internal control by the Board. The audit department shall submit an internal control evaluation report, at least once a year, to the Audit Committee. The management shall be responsible for leading the daily operation of internal control of the Company.

The audit department evaluates the effectiveness of the internal control of the Company for each financial year in accordance with the requirements of the Basic Standards for Internal Control of Companies and the corresponding guidance and other regulatory requirements concerning internal control ("Companies Internal Control Regulatory Systems"), taking into account internal control system and evaluation methods of the Company and based on the day-to-day monitoring and special supervision of internal control. In determining the scope of the internal control evaluation, the main units, business and items and high-risk areas are included in the scope of evaluation based on the risk-oriented principle. Where any significant deficiencies or risks in internal control are identified during the review process by the audit department, they shall promptly be reported to the Audit Committee. Where the Audit Committee holds that the Company's internal control is significantly defective or risky, our Board shall forthwith report the matters to stock exchanges and make an announcement thereof. The Company shall disclose in such announcement the significant deficiencies and risks in internal control, the consequences caused or likely to be caused, and any measures taken or proposed.

# CORPORATE GOVERNANCE REPORT

*(English translation for reference only)*

The internal audit department was set up by the Company in 2007. Our internal audit department had conducted quarterly reviews on the internal control of the Group throughout 2017 and submitted quarterly reports on internal audit. The reviews cover all the material aspects of monitoring, including financial control, operation control, compliance control and risk management functions, and the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

In addition, the Company engaged Pan-China Certified Public Accountants LLP to be the Company's internal control auditor during the Reporting Period. Pan-China Certified Public Accountants LLP is of the view that the Company has maintained effective internal control of financial report in all material aspects as of 31 December 2017 in accordance with the Basic Standards for Internal Control of Companies and relevant regulations.

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

## HANDLING OF INSIDE INFORMATION

The Company has put in place the Internal Reporting System for Material Information (《重大信息內部報告制度》) and the Insider Registration and Management System (《內幕信息知情人登記管理制度》).

The Internal Reporting System for Material Information aims at regulating and administering the internal reporting of material information of the Company, ensuring swift communication, gathering and effective management of any material information internally, as well as timely, accurate, complete and full disclosure of information in order to protect the legitimate interests and rights of investors. The system governs, amongst others, the procedure of internal reporting of material information, and the management and responsibility of internal reporting of material information.

## REMUNERATION COMMITTEE

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

The Remuneration Committee consists of three members, namely Mr. Shum Shing Kei (Chairman of the Remuneration Committee) and Mr. Zhang Hong Zhi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). During the Reporting Period, the Remuneration Committee held one meeting to review and approve, among others, the resolution on the proposed remuneration of Directors, Supervisors and senior management for the year 2018 to the Board. Records of attendance of each member of the committee are set out on page 35 under "Composition of the Board and Board Practices" section of this annual report.

## NOMINATION COMMITTEE

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

The Nomination Committee consists of three members, namely Mr. Zhang Hong Zhi (Chairman of the Nomination Committee) and Mr. Shum Shing Kei (both are independent non-executive Directors), and Ms. Zhang Lan Jun (executive Director). During the Reporting Period, the Nomination Committee held one meeting to review and approve, among others, the resolution on confirming the structure, number of members and composition of the Board (including their skills, knowledge and experience) that

# CORPORATE GOVERNANCE REPORT

(English translation for reference only)

fits the corporate strategy of the Company and nominating the General Manager of the Company and make recommendations to the Board for consideration and approval. Records of attendance of each member of the committee are set out on page 35 under “Composition of the Board and Board Practices” section of this annual report.

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

## AUDIT COMMITTEE

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

The Audit Committee has three members, namely Mr. Shum Shing Kei (Chairman of the Audit Committee) and Mr. Zhang Hong Zhi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). During the Reporting Period, the Audit Committee held five meetings to review and approve, among others, the annual audit report for the year 2016, self-assessment report on internal control for the year 2016, and unaudited financial report, internal audit report and internal audit working plan for first quarter, first half and third quarter of 2017. Also, the Audit Committee reviewed and approved the resolution on the re-appointment of Pan-China Certified Public Accountants LLP as the auditors of the Company for the year 2017, and submitted to the Board for review. Records of attendance of each member of the committee are set out on page 35 under “Composition of the Board and Board Practices” section of this annual report.

The Company’s annual audit report for the year ended 31 December 2017 has been reviewed by the Audit Committee.

## SUPERVISORY COMMITTEE

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

## REMUNERATION OF THE AUDITORS

For the year ended 31 December 2017, remuneration received by Pan-China Certified Public Accountants LLP, the auditors of the Company, in respect of their audit services and non-audit services are as follows:

	<b>RMB</b>
Statutory audit services	680,000
Non-statutory audit services – internal control	200,000
Total	<u>880,000</u>

## COMPANY SECRETARY

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



# CORPORATE GOVERNANCE REPORT

*(English translation for reference only)*

## RESPONSIBILITY OF DIRECTORS AND AUDITORS ON THE ACCOUNTS

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

Statements of the Company's auditors in respect of their reporting responsibilities on the Group's financial statements are set out on pages 44 to 45 in the Auditors' Report in the annual report.

## SHAREHOLDERS' RIGHTS

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

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

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

## ARTICLES OF ASSOCIATION

During the Reporting Period, there was no change in the Articles of Association.

## RELATIONSHIP WITH SHAREHOLDERS

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

## RELATIONSHIP WITH INVESTORS

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



Type of audit opinions:	Standard unqualified audit opinions
Date of signing of auditors report:	23 March 2018
Name of auditors:	Pan-China Certified Public Accountants LLP
Auditors report file number:	Pan-China Audit [2018] No. 1081
Names of the CPAs:	Jia Chuan, Bei Lihui

## TO THE SHAREHOLDERS OF ZHEJIANG SHIBAO COMPANY LIMITED

### 1. OPINION

We have audited the accompanying financial statements of Zhejiang Shibao Company Limited (hereinafter "Zhejiang Shibao Company"), which comprise the consolidated and parent company balance sheet as at 31 December 2017, the consolidated and parent company income statements, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity for the year then ended, and the notes to the financial statements.

In our opinion, the attached financial statements present fairly, in all material aspects, the consolidated and parent company's financial position of Zhejiang Shibao Company as at 31 December 2017 and the consolidated and parent company's financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

### 2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Zhejiang Shibao Company and have fulfilled our other ethical responsibilities in accordance with the China Standards on Auditing's Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. KEY AUDIT MATTERS

Key audit matters are the matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### (1) Bad-debt provision for accounts receivable

##### *1. Description of the matter*

The major customers of Zhejiang Shibao Company are domestic automakers. As of 31 December 2017, the carrying amount of the accounts receivable of Zhejiang Shibao Company was RMB512,761,243.71, accounting for 44.42% of the operating income and 24.37% of the total assets of Zhejiang Shibao Company.

# AUDITORS' REPORT

(English translation for reference only)

As set out in note 3.(10) and (27) to the financial statements, for receivables individually significant and for which bad-debt provision has been separately made, Zhejiang Shibao Company 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 groups of receivables which are individually insignificant but have significant credit risks, provision is made 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. Individually insignificant receivables for which separate bad-debt provision is made are 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.

In the estimation of impairment for accounts receivable, the management of Zhejiang Shibao Company (the "Management") generally considers the credit history of the customer and market conditions, in which substantial assumptions and subjective judgement are involved. Due to the significant carrying amount of the accounts receivable and the inherent uncertainties of the estimation, we consider it a key audit matter.

## 2. *Audit response*

We sought to understand, assessed and tested the entire process undergone by Zhejiang Shibao Company from granting credit period to a customer to giving regular review to any bad-debt provision made for accounts receivable of the customer, as well as the key internal control system of the Management.

We sought to understand and assessed the policy of Zhejiang Shibao Company on provisioning for bad debts in accounts receivable by reviewing sale contracts and meeting and discussion with the Management.

We have received information from the Management, which forms the basis of the impairment assessment of accounts receivable and doubtful debt provision, to examine its appropriateness and adequacy. The adequacy of doubtful debt provision for accounts receivable is determined through a comparison of prior doubtful debt provision with its actual realization, and checking the subsequent collection of accounts receivable.

Further, we have evaluated the relevance and accuracy of information which forms the basis of doubtful debt assessment of accounts receivable on a sampling basis, discussed with the Management the collectability of significant accounts receivable and conducted an independent confirmation procedure.

## (2) Provision for inventory obsolescence

### 1. *Description of the matter*

On 31 December 2017, the carrying amount of inventory of Zhejiang Shibao Company amounted to RMB279,634,663.89, representing 29.45% of Zhejiang Shibao Company's 2017 consolidated operating cost and 13.29% of total assets of Zhejiang Shibao Company.

As stated in note 3.(11) and (27) to the financial statements, as at the balance sheet date, Zhejiang Shibao'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 recognized at the estimated selling price of such inventories in the ordinary course of business, less estimated costs necessary to make the sale and relevant taxes. For inventories which require processing before sale, net realizable value is recognized at the estimated selling price of the finished goods produced in the ordinary course of business, less estimated costs to be incurred upon completion, costs necessary to make the sale and relevant taxes. As at the balance sheet date, for an item of inventories where a portion is subject to contractual price while the remainder is not, their net realizable values are determined and compared with their corresponding costs respectively to recognize the amount of provision, or reversal of provision, for inventory obsolescence.

The Management usually will take into account its operating strategy and factors such as demand and supply of the products and competition, which involves the assumptions and subjective judgment from the Management, when recognizes the net realizable value. Due to the significant amount of the carrying amount of the inventory and the inherent uncertainties of such estimations, we consider it as a key audit matter.

## 2. *Audit response*

We sought to understand, assessed and tested the entire process undergone by Zhejiang Shibao Company from automatic stock clearing, reasonable recognition of stock amount and condition, to evaluation and measurement of inventory obsolescence, as well as the key internal control system of the Management.

We sought to understand and assessed the policy of Zhejiang Shibao Company on provisioning for inventory obsolescence by reviewing its internal information and meeting and discussion with the Management.

We have received information from the Management, which forms the basis of the impairment assessment of inventory and inventory obsolescence provision, to examine its appropriateness and adequacy. The adequacy of provision for inventory obsolescence made by the Management is determined through a comparison of prior provision with its actual realization, and based on the aging analysis of inventory and the fluctuation of product prices, as well as its stock condition from the stock examination at the balance sheet date.

Further, we have evaluated the relevance and accuracy of information which forms the basis of net realizable value on a sampling basis, discussed with the Management the net realizable value regarding significant items of inventory, and evaluated the relevance of provision for inventory obsolescence through the re-calculating procedure based on market price.

## 4. **OTHER INFORMATION**

The Management are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion expressed on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# AUDITORS' REPORT

*(English translation for reference only)*

## **5. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS**

The Management are responsible for the preparation of the financial statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises, and to enable such internal control to be fairly reflected, designed, exercised and maintained as the Management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management are responsible for assessing Zhejiang Shibao Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless intend to liquidate, or to cease operations, or have no realistic alternative but to do so.

Those charged with governance of Zhejiang Shibao Company are responsible for overseeing Zhejiang Shibao Company's financial reporting process.

## **6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of auditing works in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- (1) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

# AUDITORS' REPORT

*(English translation for reference only)*

- (4) conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Zhejiang Shibao Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Zhejiang Shibao Company to cease to continue as a going concern.
- (5) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Zhejiang Shibao Company to express an audit opinion on the financial statements. We are responsible for the direction, supervision and performance of group audit and remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Pan-China Certified Public Accountants LLP  
Hangzhou, the PRC

Chinese Certified Public Accountant: Jia Chuan  
(Partner-in-charge of project)  
Chinese Certified Public Accountant: Bei Lihui

23 March 2018

# CONSOLIDATED BALANCE SHEET

31 December 2017 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(1)	Balance at the end of the period	Balance at the beginning of the period
<b>Current assets:</b>			
Cash on hand and at bank	1	<b>184,342,739.55</b>	145,160,290.11
Notes receivable	2	<b>114,302,216.24</b>	162,714,933.93
Accounts receivable	3	<b>512,761,243.71</b>	398,849,055.72
Prepayments	4	<b>7,004,776.38</b>	4,851,250.24
Other receivables	5	<b>6,468,067.86</b>	6,244,280.21
Inventories	6	<b>279,634,663.89</b>	244,998,559.78
Other current assets	7	<b>139,737,784.36</b>	316,808,874.28
Total current assets		<b>1,244,251,491.99</b>	1,279,627,244.27
<b>Non-current assets:</b>			
Fixed assets	8	<b>592,681,978.24</b>	599,101,741.36
Construction in progress	9	<b>119,801,083.84</b>	56,498,367.41
Intangible assets	10	<b>97,344,007.19</b>	105,682,338.89
Goodwill	11	<b>4,694,482.34</b>	4,694,482.34
Deferred income tax assets	12	<b>3,302,768.13</b>	4,238,146.41
Other non-current assets	13	<b>42,348,649.17</b>	24,899,238.79
Total non-current assets		<b>860,172,968.91</b>	795,114,315.20
<b>Total assets</b>		<b>2,104,424,460.90</b>	2,074,741,559.47
<b>Current liabilities:</b>			
Notes payable	14	<b>105,976,263.36</b>	118,716,837.78
Accounts payable	15	<b>391,592,296.47</b>	340,234,033.23
Receipts in advance	16	<b>3,382,424.14</b>	5,358,989.68
Staff cost payable	17	<b>15,671,079.38</b>	18,917,105.69
Tax payable	18	<b>8,252,072.77</b>	11,124,131.47
Interest payable	19	<b>882,136.11</b>	917,833.33
Other payables	20	<b>4,682,867.66</b>	5,329,991.89
Other current liabilities	21	<b>23,955,021.97</b>	26,010,383.35
Total current liabilities		<b>554,394,161.86</b>	526,609,306.42

# CONSOLIDATED BALANCE SHEET

31 December 2017 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(1)	Balance at the end of the period	Balance at the beginning of the period
<b>Non-current liabilities:</b>			
Long-term borrowings	22	<b>11,080,000.00</b>	9,630,000.00
Deferred Income	23	<b>46,477,939.98</b>	40,390,847.99
Deferred income tax liabilities	12	<b>3,456,833.99</b>	4,243,897.76
Total non-current liabilities		<b>61,014,773.97</b>	54,264,745.75
Total liabilities		<b>615,408,935.83</b>	580,874,052.17
<b>Equity:</b>			
Share capital	24	<b>789,644,637.00</b>	315,857,855.00
Capital reserve	25	<b>185,250,172.21</b>	659,036,954.21
Surplus reserve	26	<b>134,912,363.87</b>	130,760,053.19
Retained earnings	27	<b>364,772,936.30</b>	367,854,898.00
Equity attributable to equity holders of the parent		<b>1,474,580,109.38</b>	1,473,509,760.40
Minority interests		<b>14,435,415.69</b>	20,357,746.90
Total equity		<b>1,489,015,525.07</b>	1,493,867,507.30
<b>Total liabilities and equity</b>		<b>2,104,424,460.90</b>	2,074,741,559.47

**Zhang Shi Quan**  
Legal representative

**Zhang Lan Jun**  
Chief Financial Officer

**Li Gen Mei**  
Head of Finance Section



# BALANCE SHEET OF THE PARENT COMPANY

31 December 2017 | (RMB Yuan) | (English translation for reference only)

Item	Note 12.(1)	Balance at the end of the period	Balance at the beginning of the period
<b>Current assets:</b>			
Cash on hand and at bank		18,725,136.03	12,110,832.88
Notes receivable		955,000.00	4,400,000.00
Accounts receivable	1	64,943,331.12	70,012,874.40
Prepayments		832,791.61	682,763.20
Other receivables	2	344,608,524.35	316,641,546.93
Inventories		7,958,985.85	8,444,027.38
Other current assets		110,209,765.05	140,000,000.00
Total current assets		548,233,534.01	552,292,044.79
<b>Non-current assets:</b>			
Long-term accounts receivable		298,000,000.00	298,000,000.00
Long-term equity investments	3	185,159,214.87	185,159,214.87
Fixed assets		11,208,135.99	8,815,693.86
Construction in progress		51,302,543.57	23,346,967.89
Intangible assets		35,581,319.24	36,954,655.88
Deferred income tax assets		73,244.75	73,244.75
Other non-current assets		12,035,125.00	6,760,000.00
Total non-current assets		593,359,583.42	559,109,777.25
<b>Total Assets</b>		<b>1,141,593,117.43</b>	<b>1,111,401,822.04</b>
<b>Current liabilities:</b>			
Notes payable		13,812,950.00	2,657,000.00
Accounts payable		16,707,274.83	5,915,799.67
Receipts in advance		1,500.00	1,500.00
Staff cost payable		1,026,207.01	1,052,768.66
Tax payable		643,667.78	2,062,546.54
Other payables		3,298,609.10	3,626,619.80
Other current liabilities		880,000.00	800,000.00
Total current liabilities		36,370,208.72	16,116,234.67
<b>Non-current liabilities:</b>			
Total liabilities		36,370,208.72	16,116,234.67
<b>Shareholders' Equity:</b>			
Share capital		789,644,637.00	315,857,855.00
Capital reserve		187,767,058.72	661,553,840.72
Surplus reserve		73,909,386.83	69,757,076.15
Retained earnings		53,901,826.16	48,116,815.50
Total Shareholders' Equity		1,105,222,908.71	1,095,285,587.37
<b>Total Liabilities and Shareholders' Equity</b>		<b>1,141,593,117.43</b>	<b>1,111,401,822.04</b>

Zhang Shi Quan  
Legal representative

Zhang Lan Jun  
Chief Financial Officer

Li Gen Mei  
Head of Finance Section

# CONSOLIDATED INCOME STATEMENT

For the year 2017 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(2)	Current year	Last year
1. Total Revenue	1	<b>1,154,256,267.96</b>	1,136,399,277.71
Including: Revenue	1	<b>1,154,256,267.96</b>	1,136,399,277.71
2. Total operating costs		<b>1,142,643,391.78</b>	1,073,947,891.58
Including: Operating costs	1	<b>949,375,060.68</b>	878,619,909.18
Business taxes and surcharges	2	<b>10,062,932.55</b>	7,684,971.78
Selling expenses	3	<b>71,112,952.13</b>	70,548,830.53
General and administrative expenses	4	<b>112,815,376.43</b>	114,656,640.40
Financial expenses	5	<b>-519,681.98</b>	-1,835,285.41
Assets impairment losses	6	<b>-203,248.03</b>	4,272,825.10
Add: Investment gains	7	<b>7,975,271.12</b>	7,161,219.04
Gains from disposal of assets ("-" for loss)	8	<b>-689,980.17</b>	557,779.90
Other gains	9	<b>13,558,372.54</b>	-
3. Operating profit		<b>32,456,539.67</b>	70,170,385.07
Add: Non-operating income	10	<b>264,753.45</b>	11,297,603.03
Less: Non-operating expenses	11	<b>403,128.52</b>	875,311.65
4. Total profit		<b>32,318,164.60</b>	80,592,676.45
Less: Income tax expenses	12	<b>5,584,361.33</b>	14,601,108.60
5. Net profit ("-" for net loss)		<b>26,733,803.27</b>	65,991,567.85
(1) Net profit from continuing operation ("-" for net loss)		<b>26,733,803.27</b>	65,991,567.85
Net profit attributable to shareholders of the listed company		<b>32,656,134.48</b>	63,487,549.38
Minority interests		<b>-5,922,331.21</b>	2,504,018.47
6. Net other comprehensive income after tax		-	-
7. Total comprehensive income		<b>26,733,803.27</b>	65,991,567.85
Total comprehensive income attributable to shareholders of the listed company		<b>32,656,134.48</b>	63,487,549.38
Total comprehensive income attributable to minority shareholders		<b>-5,922,331.21</b>	2,504,018.47
8. Earnings per share:			
(1) Basic earnings per share		<b>0.0414</b>	0.0804
(2) Diluted earnings per share		<b>0.0414</b>	0.0804

**Zhang Shi Quan**  
Legal representative

**Zhang Lan Jun**  
Chief Financial Officer

**Li Gen Mei**  
Head of Finance Section

# INCOME STATEMENT OF THE PARENT COMPANY

For the year 2017 | (RMB Yuan) | (English translation for reference only)

Item	Note 12.(2)	Current year	Last year
1. Revenue	1	<b>48,584,027.86</b>	44,237,769.75
Less: Operating costs	1	<b>41,837,379.23</b>	31,958,204.60
Business taxes and surcharges		<b>1,184,630.53</b>	380,099.44
Selling expenses		<b>412,166.82</b>	229,813.75
General and administrative expenses		<b>11,045,440.14</b>	11,325,879.63
Financial expenses		<b>-3,989,713.86</b>	-4,224,773.95
Add: Investment gains	2	<b>44,033,486.69</b>	43,444,054.81
Gains from disposal of assets ("-" for loss)		<b>-42,968.52</b>	20,545.04
Other gains		<b>19,563.73</b>	-
2. Operating profit ("-" for loss)		<b>42,104,206.90</b>	48,033,146.13
Add: Non-operating income		<b>42,913.76</b>	4,576.78
Less: Non-operating expenses		<b>10,320.00</b>	30,701.20
3. Total profit ("-" for loss)		<b>42,136,800.66</b>	48,007,021.71
Less: Income tax expenses		<b>613,693.82</b>	2,049,064.28
4. Net profit ("-" for net loss)		<b>41,523,106.84</b>	45,957,957.43
(1) Net profit from continuing operation ("-" for net loss)		<b>41,523,106.84</b>	45,957,957.43
5. Net other comprehensive income after tax			
6. Total comprehensive income		<b>41,523,106.84</b>	45,957,957.43
7. Earnings per share			

**Zhang Shi Quan**  
Legal representative

**Zhang Lan Jun**  
Chief Financial Officer

**Li Gen Mei**  
Head of Finance Section

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(3)	Current year	Last year
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		<b>459,640,533.80</b>	614,777,510.82
Return of taxes and levies		<b>7,430,266.64</b>	3,417,816.93
Cash received relating to other operating activities	1	<b>37,151,791.85</b>	29,225,291.60
Sub-total of cash inflow		<b>504,222,592.29</b>	647,420,619.35
Cash paid for goods and services		<b>218,706,817.19</b>	258,042,306.37
Cash paid to and on behalf of employees		<b>160,712,702.68</b>	145,610,120.96
Payment of taxes and levies		<b>51,272,082.60</b>	43,899,692.08
Cash paid relating to other operating activities	2	<b>111,633,387.87</b>	107,847,458.11
Sub-total of cash outflow		<b>542,324,990.34</b>	555,399,577.52
Net cash flows from operating activities	5	<b>-38,102,398.05</b>	92,021,041.83
2. Cash flows from investing activities:			
Cash received for investments		<b>1,547,600,000.00</b>	1,120,000,000.00
Cash received from investment gains		<b>8,602,420.52</b>	7,161,219.04
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>7,111,795.41</b>	4,634,007.89
Cash received relating to other investing activities	3	<b>15,247,200.00</b>	23,890,000.00
Sub-total of cash inflow		<b>1,578,561,415.93</b>	1,155,685,226.93
Cash paid to acquire fixed assets, intangible assets and other long-term assets		<b>103,163,055.99</b>	121,024,458.98
Cash paid for investments		<b>1,363,000,000.00</b>	1,434,600,000.00
Sub-total of cash outflow		<b>1,466,163,055.99</b>	1,555,624,458.98
Net cash flows from investing activities		<b>112,398,359.94</b>	-399,939,232.05
3. Cash flows from financing activities:			
Cash received from borrowings		<b>132,000,000.00</b>	200,000,000.00
Sub-total of cash inflow		<b>132,000,000.00</b>	200,000,000.00
Cash paid for debt repayments		<b>130,550,000.00</b>	225,550,000.00
Cash paid for distribution of dividends, profit or interest expenses		<b>31,973,918.26</b>	32,244,840.80
Cash paid relating to other financing activities	4	<b>755,977.61</b>	3,000,000.00
Sub-total of cash outflow		<b>163,279,895.87</b>	260,794,840.80
Net cash flows from financing activities		<b>-31,279,895.87</b>	-60,794,840.80
4. Effect of changes in foreign exchange rate on cash and cash equivalents		<b>79,065.03</b>	-5,060.37
5. Net increase in cash and cash equivalents		<b>43,095,131.05</b>	-368,718,091.39
Add: opening balance of cash and cash equivalents		<b>117,330,581.92</b>	486,048,673.31
6. Closing balance of cash and cash equivalents		<b>160,425,712.97</b>	117,330,581.92

**Zhang Shi Quan**  
Legal representative

**Zhang Lan Jun**  
Chief Financial Officer

**Li Gen Mei**  
Head of Finance Section

# STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

For the year 2017 | (RMB Yuan) | (English translation for reference only)

Item	Current year	Last year
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	<b>54,008,684.32</b>	28,558,576.16
Cash received relating to other operating activities	<b>49,550,615.01</b>	54,833,899.91
Sub-total of cash inflow	<b>103,559,299.33</b>	83,392,476.07
Cash paid for goods and services	<b>22,687,304.94</b>	10,719,175.00
Cash paid to and on behalf of employees	<b>9,657,112.25</b>	7,700,806.29
Payment of taxes and levies	<b>4,165,672.62</b>	5,209,756.47
Cash paid relating to other operating activities	<b>69,796,141.89</b>	62,506,305.55
Sub-total of cash outflow	<b>106,306,231.70</b>	86,136,043.31
Net cash flows from operating activities	<b>-2,746,932.37</b>	-2,743,567.24
2. Cash flows from investing activities:		
Cash received for investments	<b>570,000,000.00</b>	352,000,000.00
Cash received from investment gains	<b>44,275,495.89</b>	43,444,054.81
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<b>40,000.00</b>	140,000.00
Cash received relating to other investing activities	<b>70,652,500.00</b>	70,652,500.00
Sub-total of cash inflow	<b>684,967,995.89</b>	466,236,554.81
Cash paid to acquire fixed assets, intangible assets and other long-term assets	<b>25,025,881.93</b>	13,840,734.70
Cash paid for investments	<b>540,000,000.00</b>	495,000,000.00
Cash paid relating to other investing activities	<b>79,150,000.00</b>	74,200,000.00
Sub-total of cash outflow	<b>644,175,881.93</b>	583,040,734.70
Net cash flows from investing activities	<b>40,792,113.96</b>	-116,804,179.89
3. Cash flows from financing activities:		
Cash received from borrowings	<b>130,000,000.00</b>	180,000,000.00
Sub-total of cash inflow	<b>130,000,000.00</b>	180,000,000.00
Cash paid for debt repayments	<b>130,000,000.00</b>	180,000,000.00
Cash paid for distribution of dividends, profit or interest expenses	<b>31,811,903.15</b>	31,855,949.14
Cash paid relating to other financing activities	<b>755,977.61</b>	-
Sub-total of cash outflow	<b>162,567,880.76</b>	211,855,949.14
Net cash flows from financing activities	<b>-32,567,880.76</b>	-31,855,949.14
4. Effect of changes in foreign exchange rate on cash and cash equivalents	<b>69,297.32</b>	-157,361.67
5. Net increase in cash and cash equivalents	<b>5,546,598.15</b>	-151,561,057.94
Add: opening balance of cash and cash equivalents	<b>11,148,732.88</b>	162,709,790.82
6. Closing balance of cash and cash equivalents	<b>16,695,331.03</b>	11,148,732.88

**Zhang Shi Quan**  
Legal representative

**Zhang Lan Jun**  
Chief Financial Officer

**Li Gen Mei**  
Head of Finance Section

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2017 | (RMB Yuan) | (English translation for reference only)

Item	Current year					Total shareholders' equity
	Attributable to equity holders of the Parent					
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Minority interests	
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 during the period ("–" for decrease)	473,786,782.00	-473,786,782.00	4,152,310.68	-3,081,961.70	-5,922,331.21	-4,851,982.23
(1) Total comprehensive income	-	-	-	32,656,134.48	-5,922,331.21	26,733,803.27
(2) Contribution by shareholders and decrease in capital	-	-	-	-	-	-
(3) Appropriation of profits	-	-	4,152,310.68	-35,738,096.18	-	-31,585,785.50
1. Transfer to surplus reserve	-	-	4,152,310.68	-4,152,310.68	-	-
2. Distribution to shareholders	-	-	-	-31,585,785.50	-	-31,585,785.50
(4) Internal transfer of equity	473,786,782.00	-473,786,782.00	-	-	-	-
1. Capital reserve transferred to capital (or share capital)	473,786,782.00	-473,786,782.00	-	-	-	-
4. Balance at the end of year	<u>789,644,637.00</u>	<u>185,250,172.21</u>	<u>134,912,363.87</u>	<u>364,772,936.30</u>	<u>14,435,415.69</u>	<u>1,489,015,525.07</u>

Item	Last year					Total shareholders' equity
	Attributable to equity holders of the Parent					
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Minority interests	
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 during the period ("–" for decrease)	-	-975,127.55	5,228,161.57	26,673,602.31	479,146.02	31,405,782.35
(1) Total comprehensive income	-	-	-	63,487,549.38	2,504,018.47	65,991,567.85
(2) Contribution by shareholders and decrease in capital	-	-975,127.55	-	-	-2,024,872.45	-3,000,000.00
1. Other	-	-975,127.55	-	-	-2,024,872.45	-3,000,000.00
(3) Appropriation of profits	-	-	5,228,161.57	-36,813,947.07	-	-31,585,785.50
1. Transfer to surplus reserve	-	-	5,228,161.57	-5,228,161.57	-	-
2. Distribution to shareholders	-	-	-	-31,585,785.50	-	-31,585,785.50
(4) Internal transfer of equity	-	-	-	-	-	-
4. Balance at the end of year	<u>315,857,855.00</u>	<u>659,036,954.21</u>	<u>130,760,053.19</u>	<u>367,854,898.00</u>	<u>20,357,746.90</u>	<u>1,493,867,507.30</u>

**Zhang Shi Quan**  
Legal representative

**Zhang Lan Jun**  
Chief Financial Officer

**Li Gen Mei**  
Head of Finance Section

# STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the year 2017 | (RMB Yuan) | (English translation for reference only)

Item	Current year				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	315,857,855.00	661,553,840.72	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 during the period ("-" for decrease)	473,786,782.00	-473,786,782.00	4,152,310.68	5,785,010.66	9,937,321.34
(1) Total comprehensive income	-	-	-	41,523,106.84	41,523,106.84
(2) Contribution by shareholders and decrease in capital	-	-	-	-	-
(3) Appropriation of profits	-	-	4,152,310.68	-35,738,096.18	-31,585,785.50
1. Transfer to surplus reserve	-	-	4,152,310.68	-4,152,310.68	-
2. Distribution to shareholders	-	-	-	-31,585,785.50	-31,585,785.50
(4) Internal transfer of equity	473,786,782.00	-473,786,782.00	-	-	-
1. Capital reserve transferred to capital (or share capital)	473,786,782.00	-473,786,782.00	-	-	-
4. Balance at the end of year	<u>789,644,637.00</u>	<u>187,767,058.72</u>	<u>73,909,386.83</u>	<u>53,901,826.16</u>	<u>1,105,222,908.71</u>

Item	Last year				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	315,857,855.00	661,553,840.72	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 during the period ("-" for decrease)	-	-	4,595,795.74	9,776,376.19	14,372,171.93
(1) Total comprehensive income	-	-	-	45,957,957.43	45,957,957.43
(2) Contribution by shareholders and decrease in capital	-	-	-	-	-
(3) Appropriation of profits	-	-	4,595,795.74	-36,181,581.24	-31,585,785.50
1. Transfer to surplus reserve	-	-	4,595,795.74	-4,595,795.74	-
2. Distribution to shareholders	-	-	-	-31,585,785.50	-31,585,785.50
(4) Internal transfer of equity	-	-	-	-	-
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>48,116,815.50</u>	<u>1,095,285,587.37</u>

**Zhang Shi Quan**  
Legal representative

**Zhang Lan Jun**  
Chief Financial Officer

**Li Gen Mei**  
Head of Finance Section

# NOTES TO THE FINANCIAL STATEMENTS

*For the year 2017 | (RMB Yuan) | (English translation for reference only)*

## 1. GENERAL

Zhejiang Shibao Company Limited (hereafter referred to as the “Company”) is a joint stock limited company approved by the document (ZHE SHANG SHI [2004] 37) (浙上市[2004]37號) issued by the Listing Affair Team (上市工作領導小組) of the People’s Government of Zhejiang Province. The Company was established by ways of promotion jointly by Zhejiang Shibao Holding Group Co., Ltd., Wu Wei Xu (吳偉旭), Wu Lang Yue (吳琅躍), Du Chun Mao (杜春茂) and Chen Wen Hong (陳文洪) on the basis of Zhejiang Shibao Steering Gear Co., Ltd.. The Company was registered and incorporated with Zhejiang Administration for Industry & Commerce on 30 April 2004. Currently, it holds the business licence with a creditability code (913300001476445210) issued by the Zhejiang Administration Bureau of Industry and Commerce. The current share capital of the Company is RMB789,644,637.00 divided into a total of 789,644,637 shares (RMB1 for each share). Of which, shares with selling restrictions include 123,160,704 A Shares; shares without selling restrictions include 449,698,933 A Shares and 216,785,000 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 34th meeting of the fifth session of the Board of the Company on 23 March 2018.

The Company has included 7 subsidiaries to the consolidated financial report, i.e. Hangzhou Shibao, Hangzhou New Shibao, Jilin Shibao, Siping Steering, Beijing Autonics, Wuhu Sterling and Erdos Sterling. Details refer to the notes to the financial statements provided for 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

For the year 2017 | (RMB Yuan) | (English translation for reference only)

## 3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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

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

### (2) Accounting Year

The accounting year is from 1 January to 31 December.

### (3) Operating Cycle

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

### (4) Functional Currency

Renminbi (“RMB”) is adopted as functional currency.

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

### **(8) Foreign Currency Translation**

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

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

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

##### (3) *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

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (10) Receivables

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

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

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

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

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

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

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

For other receivables such as bill receivables, 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

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### **(11) Inventories**

#### 1. Classifications of inventories

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

#### 2. Cost of inventories transferred out

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

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

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

#### 4. Inventory system

The Company maintains a perpetual inventory system.

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

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

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

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

Packaging materials are amortised in full when received for use.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### **(12) Non-current Assets or Disposal Groups Classified as Held for Sale**

#### 1. Classification of non-current assets or disposal groups held for sale

Non-current assets or disposal groups that meet the following conditions are classified as held for sale: (1) based on the practice of selling such assets or disposal groups in similar transactions, they can be sold immediately under current conditions; (2) the sale is very likely to happen, that is, the company has already made a resolution on a sales plan and obtained a certain purchase commitment, and it is expected that the sale will be completed within one year.

The non-current assets or disposal groups that the Company has acquired specially for resale are classified as held for sale on the acquisition date when they meet the condition that “it is expected that the sale will be completed within one year” on the acquisition date, and are likely to satisfy other conditions of being classified as held for sale in a short-term (usually being 3 months).

If the Company undertakes to sell the non-current assets or disposal groups even though the non-related party transaction fails to be finished within one year as a result of the following reasons beyond the control of the Company, such non-current assets or disposal groups will continue to be classified as held for sale: (1) the buyer or other party unexpectedly sets conditions leading to delay of the sale, and the Company has taken measures for such conditions in a timely manner and is expected to deal with such delay factors successfully within one year since such conditions leading to the delay of the sale are set; (2) the sale of non-current assets or disposal groups held for sale fail to complete within one year due to rare circumstances, and in the first year, the Company has taken necessary measures for these new situations and re-satisfies the conditions of being classified as held for sale.

#### 2. Measurement of the non-current assets or disposal groups held for sale

##### *(1) Initial measurement and subsequent measurement*

For the initial measurement and remeasurement of the non-current assets or the disposal groups held for sale on the balance sheet date, if their book value is higher than the net amount after the fair value less the selling expenses, the book value shall be reduced to the net amount after their fair value less the selling expenses, and the reduced amount is recognized as the impairment loss of assets and recorded in the current profit or loss with provision made for impairment of assets held for sale.

For the non-current assets or disposal groups classified as held for sale at the acquisition date, they are measured at the lower of their initial measurement amount and the net amount after their fair value less the selling expenses based on the assumption that such non-current assets or disposal groups are not classified as held for sale at the time of initial measurement. Except for the non-current assets or disposal groups acquired in a business combination, the difference arising from considering the net amount of such non-current assets or disposal groups after their fair value less the selling expenses as the initial measurement amount is recorded in the current profit or loss.

For the impairment loss amount of assets recognized in the disposal groups held for sale, it shall first write down the book value of the goodwill in the disposal groups, then write down the book value in proportion of the book value of each non-current asset in the disposal groups.

The non-current assets in the non-current assets or disposal groups held for sale is not depreciated or amortized, and the debt interests and other fees in the disposal groups held for sale continue to be recognized.



# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### **(12) Non-current Assets or Disposal Groups Classified as Held for Sale** *(continued)*

#### 2. Measurement of the non-current assets or disposal groups held for sale *(continued)*

##### *(2) Accounting treatment of the reverse of asset impairment loss*

In respect of the non-current assets held for sale, if the net amount after their fair value less the selling expenses increased as at the subsequent balance date, the reduced amount before will be recovered and reversed in the asset impairment loss amount recognized after being classified as held for sale, and the reversed amount will be recorded in the current profits or loss. The impairment loss on assets recognized before being classified as held for sale will not be reversed.

In respect of the disposal groups held for sale, if the net amount after their fair value less the selling expenses increased as at the subsequent balance date, the reduced amount before will be recovered and reversed in the asset impairment loss amount recognized in non-current assets after being classified as held for sale, and the reversed amount will be recorded in the current profits or loss. The reduced book value of the goodwill as well as the impairment loss on assets recognized before the non-current assets are classified as held for sale will not be reversed.

The subsequent reversed amount in respect of the impairment loss on assets recognized in the disposal groups held for sale will increase the book value in proportion of the book value of each non-current assets (other than goodwill) in the disposal groups.

##### *(3) Accounting treatment of the non-current assets or disposal group that no longer being classified as held for sale and being derecognized*

If the non-current assets or disposal groups are no longer classified as held for sale since they no longer meet the condition of being classified as held for sale or the non-current assets are removed from the disposal groups held for sale, they will be measured at the lower of the following: 1) the amount after their book value before they are classified as held for sale is adjusted based on the depreciation, amortization or impairment that should have been recognized given they are not classified as held for sale; 2) the recoverable amount.

The unrecognized profit or loss will be recorded in the current profit or loss when derecognizing the non-current assets or disposal group held for sale.

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 2. Determination of investment cost

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

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

- (2) For a long-term equity investment obtained through a business combination not involving entities under common control, the initial investment cost is the fair value of the consideration given for combination at the acquisition date.

As for business combinations which involve enterprises not under common control and are carried out in stages, the accounting treatment of separate financial report and consolidated financial report shall be different:

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

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

#### 3. Subsequent measurement and recognition

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

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

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

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

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

- 1) For the 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) For the disposal of investment in a subsidiary to loss of its right to control in stages through various transactions that are 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

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (14) Fixed Assets

#### 1. Recognition of fixed assets

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

#### 2. Depreciation of fixed assets

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

### (15) Construction in Progress

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

### (16) Borrowing Costs

#### 1. Capitalization of borrowing costs

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

#### 2. Timing of borrowing costs capitalization

- (1) Borrowing costs shall be capitalized when: 1) capital expenditures and 2) borrowing costs have been incurred, and 3) activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.
- (2) Capitalization of borrowing costs should be suspended during periods in which abnormal interruption has lasted for more than three months during the process of acquisition, construction or production of assets qualified for capitalization. The borrowing cost incurred during interruption is recognised as current expenses until the acquisition, construction or production activities resume.
- (3) The capitalization of borrowing costs ceases when the assets acquired, constructed or produced and qualified for capitalization are ready for their intended use or sale.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (16) Borrowing Costs *(continued)*

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

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

### (17) Intangible Assets

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

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

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

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

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

If the recoverable amount of the abovementioned long-term assets is lower than its carrying amount, the difference is recognised as provision for asset impairment and recorded in the current profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

2. Accounting treatment for short-term remuneration

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

3. Accounting treatment of post-employment benefits

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 4. Accounting treatment of dismissal benefits

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

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

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

### **(20) Provision for liability**

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### **(21) Revenue**

#### 1. Recognition of revenue

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

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

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

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

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

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

#### 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.



# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

The government subsidies obtained by the Company to purchase or construct long-term assets or otherwise are government subsidies pertinent to assets. Government subsidies relating to assets are offset against the carrying amount of such assets or recognised as deferred income. Government subsidies relating to assets recognised as deferred income are included in profit or loss on a reasonable and systematic basis over the useful lives of the relevant assets. Government subsidies measured at notional amount are directly recorded in profit or loss. For assets sold, transferred, disposed or damaged prior to the end of their useful lives, balance of unallocated deferred income is transferred to profit or loss for the period in which the disposal occurred.

#### 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. The Company classifies government subsidies that contain both assets-related and income-related portion or those that are difficult to distinguish as the ones related to income on an entire basis. 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 or offset the related costs for the period in which the related costs or losses are recognised. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognised in current profit or loss or offset the related costs.

#### 3. Government subsidies related to the Company's daily operations are included in other income or offset against relevant expenses according to the economic nature of business. Government subsidies that are not related to the Company's daily operations are included in the non-operating income or expenses.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### **(24) Leases**

#### Accounting method of operating leases

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

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

### **(25) Segment Reporting**

The Company determines the operating segments on the basis of the internal organisational structure, management requirements and internal reporting system. The operating segments of the Company refer to the component that meets all of the following conditions:

1. The component is able to generate income and incur expenses in daily activities;
2. The management is able to regularly evaluate the operating results of the segment to determine the allocation of resources and assess its performance;
3. The financial position, operating results, cash flow and other relevant accounting information of the segment can be obtained through analysis.

### **(26) Other Significant Accounting Policies and Accounting Estimates**

#### Recognition criteria for discontinued operation and its accounting treatment

Discontinued operation is a component that meets one of the following conditions, has been disposed of or classified as held for sale and is separately identifiable:

- (1) The component represents an independent main business or a separate main operating area;
- (2) The component is a part of a related plan that intends to dispose an independent main business or a separate main operating area;
- (3) The component is a subsidiary acquired exclusively for resale.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### **(27) 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.

Key sources of estimation uncertainty are as follows:

#### 1. Recognition of deferred tax assets

As stated in note 3 Deferred tax assets and deferred tax liabilities to the financial statements, deferred tax assets are recognised by the Company at the deductible temporary difference between the carrying amount of assets and liabilities and their tax bases (or, for an item not recognised as assets or liabilities but whose tax base can be determined under tax laws, the difference between the tax base and the carrying amount) based on the tax rate applicable to the period when the asset is recovered or the liability is settled. Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

#### 2. Provision for doubtful debt

As stated in note 3 Receivables 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 Inventories 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 recognized at the estimated selling price of such inventories in the ordinary course of business, less estimated costs necessary to make the sale and relevant taxes; For inventories which require processing before sale, net realizable value is recognized at the estimated selling price of the finished goods produced in the ordinary course of business, less estimated costs to be incurred upon completion, costs necessary to make the sale and relevant taxes; As at the balance sheet date, for an item of inventories where a portion is subject to contractual price while the remainder is not, their net realizable values are determined and compared with their corresponding costs respectively to recognize the amount of provision, or reversal of provision, for inventory obsolescence.

#### 4. Long-term asset impairment

As mentioned in note 3 Long-term asset impairment 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (28) Material changes in accounting policies

#### Impacts on accounting policies caused by changes in Accounting Standards for Business Enterprises

1. The Company has implemented the “Accounting Standard for Business Enterprises No. 42 – Non-current Assets Held for Sale, Disposal Group and Termination of Operation” promulgated by the Ministry of Finance on 28 May 2017 and the revised “Accounting Standard for Business Enterprises No. 16 – Government Grants” on 12 June 2017. The changes of such accounting policies are subject to prospective application approach and was considered and approved at the 26th meeting of the fifth session of the Board of Directors of the Company.
2. The Company has prepared its 2017 annual statements in accordance with the Notice on Revised Format of General Financial Statements of Enterprises promulgated by the Ministry of Finance (Cai Kuai [2017] No. 30). Gain or loss from disposal of non-current assets and gain or loss from exchanging of non-monetary assets, which were originally recorded as “non-operating income” and “non-operating expense”, are now listed as “gains from disposal of assets”. Such change of accounting policy is subject to retrospective adjustment approach. Non-operating income of 2016 was reduced by RMB1,113,328.44 and non-operating expense by RMB555,548.54 while gain from disposal of assets was increased by RMB557,779.90. Such changes were considered and approved at the 34th meeting of the fifth session of the Board of Directors 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), 11%, 6%
Property tax	On the property value less 30%, or on rents	1.2%, 12%
Urban maintenance and construction tax	Amount of payable turnover tax	7%, 5%
Education surcharge	Amount of payable turnover tax	3%
Local education surcharge	Amount of payable turnover tax	2%
Corporate income tax	Amount of taxable income	15%, 25%

(Note): Hangzhou Shibao Auto Steering Gear Co., Ltd. and Jilin Shibao Machinery Manufacturing Co., Ltd., the Company's subsidiaries, enjoy the tax policy of “exempt, credit, refund” for export goods with an export tax refund rate of 17%.

Details of corporate income tax rates of different entities:

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

## 4. TAXATION (continued)

### (2) Tax Concession and Approval Documents

1. According to the “Letter Regarding 2017 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. [2017] 201), the Company’s subsidiaries, Hangzhou Shibao Auto Steering Gear Co., Ltd. and Hangzhou New Shibao Electric Power Steering Co., Ltd. obtained the High-tech Enterprise Certificates (No. GR201733000242 and GR201733001928 respectively) during 2017, with a valid period from 2017 to 2019. They are subject to a corporate income tax rate of 15% during the period.
2. According to the “Administrative Measures for the Recognition of High-tech Enterprises” (CTP No. [2016] 32) and the “Guidelines for the Recognition Management Work of High-tech Enterprises” (CTP No. [2016] 195), the Company’s subsidiary, Beijing Autonics Technology Co., Ltd. obtained the High-tech Enterprise Certificate (No. GR201711007542) during 2017, with a valid period from 2017 to 2019. It is subject to a corporate income tax rate of 15% during the period.
3. According to the “Notification Regarding the Announcement of the List of the First Batch of High-tech Enterprises of Anhui Province Recognized in 2017” (Ke Gao No. [2017] 62) issued by the Anhui Provincial Department of Science and Technology, Anhui Provincial Department of Finance, Anhui Provincial Office, SAT and Anhui Local Taxation Bureau, the Company’s subsidiary, Wuhu Sterling Steering System Co., Ltd. obtained the High-tech Enterprise Certificate (No. GR201734000456) during 2017, with a valid period from 2017 to 2019. It is subject to a corporate income tax rate of 15% during the period.

## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### 1. Cash on hand and at bank

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Cash	309,027.11	76,798.67
Bank deposits	160,116,685.86	117,253,783.25
Other monetary funds	23,917,026.58	27,829,708.19
Total	<u>184,342,739.55</u>	<u>145,160,290.11</u>
Include: total monetary funds deposited overseas		<u>18,736.34</u>

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

Other monetary funds at the end of the period represents the guarantee deposits of RMB23,917,026.58 for the issuance of the bank acceptance bills.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 2. Notes receivable

##### (1) Breakdown

Type	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for bad debts	Book value	Carrying amount	Provision for bad debts	Book value
Bank acceptance bills	<b>114,302,216.24</b>	—	<b>114,302,216.24</b>	162,714,933.93	—	162,714,933.93
Total	<b>114,302,216.24</b>	—	<b>114,302,216.24</b>	162,714,933.93	—	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)	<b>52,375,112.49</b>
Sub-total	<b>52,375,112.49</b>

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

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

Item	Amounts derecognized at end of the period	Amounts not yet derecognized at end of the period
Bank acceptance bills	<b>282,151,716.71</b>	—
Sub-total	<b>282,151,716.71</b>	—

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

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 3. Accounts receivable

##### (1) Breakdown

##### 1) Breakdown by types

Types	Balance at the end of the period				Book value
	Carrying amount Amount	(%)	Provision for bad debts Amount	(%)	
Individually significant amount with bad debt provision on individual basis	485,679,150.43	93.65	1,396,878.21	0.29	484,282,272.22
Individually insignificant but significant based on credit risk characteristics	7,391,505.86	1.43	4,448,325.71	60.18	2,943,180.15
Individually insignificant amount with bad debt provision on individual basis	25,535,791.34	4.92			25,535,791.34
<b>Total</b>	<b>518,606,447.63</b>	<b>100.00</b>	<b>5,845,203.92</b>	<b>1.13</b>	<b>512,761,243.71</b>

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

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 3. Accounts receivable (continued)

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

2) The aging analysis is as follows:

Age	Balance at the end of the period			Balance at the beginning of the period		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
Within 1 year	508,867,443.02	98.12		396,577,811.46	97.65	
1-2 years	3,162,471.75	0.61	127,504.36	4,578,768.38	1.13	2,900,412.69
2-3 years	2,228,700.00	0.43	1,886,522.94	1,101,389.87	0.27	810,327.93
Over 3 years	4,347,832.86	0.84	3,831,176.62	3,860,070.77	0.95	3,558,244.14
Subtotal	518,606,447.63	100.00	5,845,203.92	406,118,040.48	100.00	7,268,984.76

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 debt	Provision (%)	Reason for provision
Receivables of sales payment from Zhejiang Yuanjing Auto Parts Co., Ltd. (浙江遠景汽配有限公司) and others	484,282,272.22			Individual impairment test showed no risk was expected of balance recover
Yunnan Lifan Junma Auto Co., Ltd.	1,396,878.21	1,396,878.21	100.00	Unrecovered amount Expected
Sub-total	485,679,150.43	1,396,878.21	0.29	

4) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	7,391,505.86	60.18	4,448,325.71
Sub-total	7,391,505.86	60.18	4,448,325.71



# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 3. Accounts receivable (continued)

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

- 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 Chongqing Longrun Automobile Steering Co. Ltd. (重慶龍潤汽車轉向器有限公司) and others	25,535,791.34			Individual impairment test showed no risk was expected of balance recover
Sub-total	25,535,791.34			

- (2) Bad debts provision provided during the period amounted to RMB-368,812.32 and provisions for bad debt reversed correspondingly from recovered accounts receivable during the period amount to RMB999,496.98.

- (3) Receivables from products actually sold during the period amounted to RMB55,471.54

- (4) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
Zhejiang Yuanjing Auto Parts Co., Ltd. (浙江遠景汽配有限公司)	95,396,722.04	18.39	
Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司)	27,024,339.90	5.21	
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	24,163,023.25	4.66	
Chery Automobile Co., Ltd. (奇瑞汽車股份有限公司)	22,930,533.52	4.42	
Dongfeng Xiaokang Motor Company Limited (東風小康汽車有限公司)	17,659,171.57	3.41	
Sub-total	187,173,790.28	36.09	

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 4. Prepayments

##### (1) Aging analysis

Aging	Balance at the end of the period			Balance at the beginning of the period			
	Carrying amount	Provision for bad debts (%)	Book value	Carrying amount	Provision for bad debts (%)	Book value	
Within 1 year	6,108,926.57	87.21	6,108,926.57	4,288,907.03	88.41		4,288,907.03
1-2 years	895,849.81	12.79	895,849.81	562,343.21	11.59		562,343.21
Total	<u>7,004,776.38</u>	<u>100.00</u>	<u>7,004,776.38</u>	<u>4,851,250.24</u>	<u>100.00</u>		<u>4,851,250.24</u>

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

Name	Carrying amount	Percentage of the total prepayments carrying amount (%)
Hangzhou Yuanwei Machinery Manufacture Co., Ltd. (杭州遠威機械製造有限公司)	1,504,441.86	21.48
Hangzhou Fuyang Tongxin Machinery Co., Ltd. (杭州富陽童馨機械有限公司)	386,151.00	5.51
Jinlinsheng Electric Power Supply Company Siping City Electric Power Supply Company (吉林省電力有限公司四平供電公司)	382,547.91	5.46
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)	237,642.91	3.39
Shandong Iron & Steel Co., Ltd. Laifu Sub-company (山東鋼鐵股份有限公司萊蕪分公司)	221,743.69	3.17
Sub-total	<u>2,732,527.37</u>	<u>39.01</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 5. Other receivables

##### (1) Breakdown

##### 1) Breakdown by types

Types	Carrying amount		Balance at the end of the period Provision for bad debts		Book value
	Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	3,225,240.00	48.92			3,225,240.00
Individually insignificant but significant based on credit risk characteristics	717,085.52	10.88	124,237.64	17.33	592,847.88
Individually insignificant amount with bad debt provision on individual basis	2,649,979.98	40.20			2,649,979.98
Total	6,592,305.50	100.00	124,237.64	1.88	6,468,067.86

Types	Carrying amount		Balance at the beginning of the period Provision for bad debts		Book value
	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
Total	6,368,517.85	100.00	124,237.64	1.95	6,244,280.21

##### 2) Aging analysis

Age	Balance at the end of the period Carrying amount			Balance at the beginning of amount Carrying amount		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
Within 1 year	2,649,979.98	40.20		5,890,885.30	92.50	100,000.00
1-2 years	3,679,510.65	55.81	100,000.00	119,722.89	1.88	
2-3 years	3,361.31	0.05		248,441.00	3.90	
Over 3 years	259,453.56	3.94	24,237.64	109,468.66	1.72	24,237.64
Sub-total	6,592,305.50	100.00	124,237.64	6,368,517.85	100.00	124,237.64

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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)

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Jilin Tiedong Economic Development Zone Administrative Committee imprest and others (吉林鐵東經濟開發區管理委員會暫借款等款項)	3,225,240.00			Individual impairment test showed no risk was expected of balance recover
Sub-total	3,225,240.00			

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

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	717,085.52	17.33	124,237.64
Sub-total	717,085.52	17.33	124,237.64

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Other receivables of individual imprest and others	2,649,979.98			Individual impairment test showed no risk was expected of balance recover
Sub-total	2,649,979.98			

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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)

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

(4) Classification by nature of other receivables

Nature of the receivables	Balance at the end of the period	Balance at the beginning of the period
Security deposits	433,251.50	331,259.00
Export tax refund receivable		1,709,680.61
Provisional borrowings	3,325,240.00	3,356,240.00
Imprest	1,544,867.21	666,871.03
Others	1,288,946.79	304,467.21
Sub-total	6,592,305.50	6,368,517.85

(5) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Aging	Percentage of other receivables carrying amount (%)	Provision for bad debts
Jilin Tiedong Economic Development Zone Administrative Committee (吉林鐵東經濟開發區管理委員會)	Provisional borrowings	3,225,240.00	1-2 years	48.92	
Beijing King & Wood Mallesons Shanghai Office (北京市金杜律師事務所上海分所)	Other	518,867.92	within 1 year	7.87	
Yang Jiang Hui (楊江輝)	Imprest	251,000.00	within 1 year, 1-2 years	3.81	
Wang Shu Jie (王書杰)	Imprest	186,000.00	within 1 year	2.82	
Zheng Yong Ping (鄭永平)	Imprest	112,687.50	within 1 year	1.71	
Sub-total		4,293,795.42		65.13	

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 6. Inventories

##### (1) Breakdown

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Raw materials	83,960,743.50		83,960,743.50	65,069,045.99		65,069,045.99
Work-in-progress	29,858,864.15		29,858,864.15	34,698,396.81		34,698,396.81
Finished goods	163,168,376.42	1,247,992.90	161,920,383.52	141,603,827.36	1,169,119.70	140,434,707.66
Low-value consumables	3,894,672.72		3,894,672.72	4,796,409.32		4,796,409.32
Total	<u>280,882,656.79</u>	<u>1,247,992.90</u>	<u>279,634,663.89</u>	<u>246,167,679.48</u>	<u>1,169,119.70</u>	<u>244,998,559.78</u>

##### (2) Provision

##### 1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period		Balance at the end of the period
			Reversal	Transfer (Note)	
Finished goods	1,169,119.70	1,165,061.27		1,086,188.07	1,247,992.90
Sub-total	<u>1,169,119.70</u>	<u>1,165,061.27</u>		<u>1,086,188.07</u>	<u>1,247,992.90</u>

##### 2) Determination of specific basis for net realizable value and reasons for reversal or transfer of provision for inventory obsolescence during the period

Item	Basis of provision for inventory obsolescence	Reasons for reversal or transfer of provision for inventory obsolescence during the period	Proportion of written back in the closing balance of inventory of an item during the period (%)
Finished goods, such as electric power steering system, etc.	Stated at the lower of cost and net realizable value	Transfer out from provision due to the sales of inventories	0.67%

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 7. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Short-term bank wealth management products	<b>130,000,000.00</b>	314,600,000.00
Value added tax recoverable	<b>9,071,136.80</b>	1,021,294.13
Prepaid expenses	<b>639,679.36</b>	1,096,501.17
Prepaid corporate income tax	<b>26,968.20</b>	91,078.98
Total	<b><u>139,737,784.36</u></b>	<u>316,808,874.28</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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	25,365,318.13	33,558,839.16	3,587,499.42	3,181,781.40	65,693,438.11
1) Purchase	2,129,504.81	16,109,731.25	1,161,287.51	2,567,660.89	21,968,184.46
2) Transfer from construction in progress	23,235,813.32	17,449,107.91	2,426,211.91	614,120.51	43,725,253.65
Decrease during the period	781,078.10	14,973,188.92	2,202,236.18	23,692.82	17,980,196.02
1) Disposal	781,078.10	14,973,188.92	2,202,236.18	23,692.82	17,980,196.02
Balance at the end of the period	289,772,074.73	660,927,552.76	20,606,714.81	23,681,846.74	994,988,189.04
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	7,311,981.46	52,987,814.15	2,405,704.03	1,854,412.56	64,559,912.20
1) Provision	7,311,981.46	52,987,814.15	2,405,704.03	1,854,412.56	64,559,912.20
Decrease during the period	340,953.10	8,043,417.80	2,024,715.75	17,820.34	10,426,906.99
1) Disposal	340,953.10	8,043,417.80	2,024,715.75	17,820.34	10,426,906.99
Balance at the end of the period	60,688,562.13	313,044,995.45	12,576,435.50	14,924,975.72	401,234,968.80
Provision					
Balance at the beginning of the period	825,717.39	245,524.61			1,071,242.00
Increase during the period					
1) Provision					
Decrease during the period					
1) Disposal					
Balance at the end of the period	825,717.39	245,524.61			1,071,242.00
Book value					
Book value at the end of the period	228,257,795.21	347,637,032.70	8,030,279.31	8,756,871.02	592,681,978.24
Book value at the beginning of the period	210,644,583.54	373,995,778.81	7,026,004.35	7,435,374.66	599,101,741.36



# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 8. Fixed assets (continued)

(2) Information about fixed assets without certificate of title

Project	Carrying amount	Reason for not obtaining certificate of title
The Siping R&D building and complex plant	23,093,895.84	Still under process
Sub-total	23,093,895.84	

#### 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	5,406,894.48		5,406,894.48	188,735.04		188,735.04
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	51,302,543.57		51,302,543.57	23,346,967.89		23,346,967.89
The Siping Steering complex plant and R&D building project (四平機械綜合廠房及研發樓項目)				13,910,883.84		13,910,883.84
The New Shibao new plant (phase 2) project (新世寶新建廠房(二期)項目)	15,245,982.94		15,245,982.94	4,616,143.14		4,616,143.14
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	9,939,147.41		9,939,147.41	765,109.76		765,109.76
The research and development centre of automotive intelligent technology project	401,757.00		401,757.00			
Other sundry projects	37,504,758.44		37,504,758.44	13,670,527.74		13,670,527.74
Total	119,801,083.84		119,801,083.84	56,498,367.41		56,498,367.41

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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 (continued)

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

Project name	Budget (RMB0,000)	Balance at the beginning of the period	Increase during the period	Transfer to fixed assets	Other decrease	Percentage of invested amount to budget (%)
The precious casting and processing of automotive components project	23,536.41	188,735.04	13,807,349.36	8,589,189.92		27.05
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	36,067.10	23,346,967.89	27,955,575.68			14.22
The Siping Steering complex plant and R&D building project (四平機械綜合廠房及研發樓項目)	2,300.00	13,910,883.84	9,183,012.00	23,093,895.84		100.39
The New Shibao new plant (phase 2) project (新世寶新建廠房(二期)項目)	2,600.00	4,616,143.14	10,629,839.80			58.64
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	81,141.67	765,109.76	15,216,090.63	6,042,052.98		2.01
The research and development centre of automotive intelligent technology project	15,002.56		401,757.00			0.27
Other sundry projects		13,670,527.74	29,834,345.61	6,000,114.91		
Total		56,498,367.41	107,027,970.08	43,725,253.65		

Project name	Construction progress (%)	Accumulated amount of capitalized interests	Amount of capitalized interests during the period	Interest rate of capitalized interests during the period (%)	Source of fund	Balance at the end of the period
The precious casting and processing of automotive components project	30.00				Internal fund, Proceeds	5,406,894.48
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	15.00				Internal fund, Proceeds	51,302,543.57
The Siping Steering complex plant and R&D building project (四平機械綜合廠房及研發樓項目)	100.00				Internal fund	
The New Shibao new plant (phase 2) project (新世寶新建廠房(二期)項目)	60.00				Internal fund	15,245,982.94
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	2.00				Internal fund	9,939,147.41
The research and development centre of automotive intelligent technology project	0.30				Internal fund	401,757.00
Other sundry projects					Internal fund	37,504,758.44
Total						119,801,083.84

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 10. Intangible assets

##### (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				890,794.50	890,794.50
1) Purchase				890,794.50	890,794.50
Decrease during the period					
1) Disposal					
Balance at the end of the period	<u>105,194,617.43</u>	<u>1,281,666.67</u>	<u>48,696,372.12</u>	<u>4,891,085.64</u>	<u>160,063,741.86</u>
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	2,243,745.11	128,167.65	6,175,707.13	681,506.31	9,229,126.20
1) Provision	2,243,745.11	128,167.65	6,175,707.13	681,506.31	9,229,126.20
Decrease during the period					
1) Disposal					
Balance at the end of the period	<u>19,267,066.01</u>	<u>918,530.63</u>	<u>39,389,558.14</u>	<u>3,144,579.89</u>	<u>62,719,734.67</u>
Book value					
Book value at the end of the period	<u>85,927,551.42</u>	<u>363,136.04</u>	<u>9,306,813.98</u>	<u>1,746,505.75</u>	<u>97,344,007.19</u>
Book value at the beginning of the period	<u>88,171,296.53</u>	<u>491,303.69</u>	<u>15,482,521.11</u>	<u>1,537,217.56</u>	<u>105,682,338.89</u>

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

Item	Balance at the end of the period	Balance at the beginning of the period
Outside Hong Kong	<b>85,927,551.42</b>	88,171,296.53
including: interim lease	<b>85,927,551.42</b>	88,171,296.53
Sub-total	<b>85,927,551.42</b>	88,171,296.53

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 11. Goodwill

(1) Original carrying amount of goodwill

Name of the investee	Balance as at the beginning of the period	Decreased during the period			Amounts at the end of the period
		Arising from business combination during the period	Disposal	Others	
Wuhu Sterling Steering System Co., Ltd	4,694,482.34				4,694,482.34
Total	4,694,482.34				4,694,482.34

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

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

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

(1) Deferred income tax assets which are not offset

Item	Balance at the end of the period		Balance at the beginning of the period	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	6,402,485.18	1,188,715.89	7,892,593.35	1,471,157.09
Profits not realized from intra-group transactions	3,511,963.45	670,480.12	4,110,225.77	735,589.39
Deductible loss			2,401,218.70	600,304.67
Accrued Warranty expenses	8,723,489.97	1,443,572.12	8,392,696.73	1,431,095.26
Total	18,637,938.60	3,302,768.13	22,796,734.55	4,238,146.41

(2) Deferred income tax liabilities which are not offset

Item	Balance at the end of the period		Balance at the beginning of the period	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Asset valuation surplus arising from business combination not under the common control (Note)	13,827,335.96	3,456,833.99	16,975,591.04	4,243,897.76
Total	13,827,335.96	3,456,833.99	16,975,591.04	4,243,897.76

(Note): There are taxable temporary differences arising from fair value adjustment on various identifiable assets and liabilities in acquiring Wuhu Sterling Steering System Co., Ltd through business combination not under the common control in stages during 2013. The balance as at the beginning of 2017 was RMB14,027,757.58. During the period, taxable temporary differences of the reversal of fair value amortization was RMB2,379,255.12. As at 31 December, 2017, the taxable temporary differences arising from such fair value adjustment amounted to RMB11,648,502.46.

In previous years, there were taxable temporary differences arising from fair value adjustment in various identifiable assets and liabilities in acquiring Beijing Autonics Technology Co., Ltd through business combination not under the common control. Its balance as at the beginning of 2017 was RMB2,947,833.46. During the period, taxable temporary differences of the reversal of fair value amortization was RMB768,999.96. As at 31 December, 2017, the taxable temporary differences arising from such fair value adjustment amounted to RMB2,178,833.50.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

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

Item	Balance at the end of the period	Balance at the beginning of the period
Provision for decline in price of inventories	690,711.64	545,511.11
Deductible loss	62,041,038.60	63,873,204.86

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

Year	Balance at the end of the period	Balance at the beginning of the period	Note
2017		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	7,338,909.91	11,287,662.13	
2022	14,439,264.96		
Sub-total	62,041,038.60	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	35,728,649.17	18,279,238.79
Deposit to fulfill the contract	6,620,000.00	6,620,000.00
Total	42,348,649.17	24,899,238.79

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 14. Notes payable

##### (1) Breakdown

Type	Balance at the end of the period	Balance at the beginning of the period
銀行承兌匯票	105,976,263.36	118,716,837.78
合計	105,976,263.36	118,716,837.78

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

#### 15. Accounts payable

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Operating purchase payable	366,378,596.73	312,433,650.97
Long-term assets purchase payable	25,213,699.74	27,800,382.26
Total	391,592,296.47	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	379,869,070.23	324,139,724.56
1-2 years	8,982,445.81	9,851,904.70
2-3 years	572,171.65	2,747,397.62
Over 3 years	2,168,608.78	3,495,006.35
Total	391,592,296.47	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 large accounts payable aged over 1 year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Receipts in advance from sales of goods	<b>3,382,424.14</b>	5,358,989.68
Total	<b>3,382,424.14</b>	5,358,989.68

##### (2) Aging analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	<b>3,266,174.65</b>	4,605,227.70
1-2 years	<b>116,249.49</b>	753,761.98
Total	<b>3,382,424.14</b>	5,358,989.68

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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

##### (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	144,336,077.67	147,376,529.99	<b>14,556,238.36</b>
Post-employment benefits – established withdrawal and deposit plan	1,320,415.01	12,397,616.26	12,603,190.25	<b>1,114,841.02</b>
Sub-total	<u>18,917,105.69</u>	<u>156,733,693.93</u>	<u>159,979,720.24</u>	<u><b>15,671,079.38</b></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	122,390,058.50	125,136,898.45	<b>13,326,669.24</b>
Staff welfare		8,991,254.59	8,991,254.59	
Social insurance	1,131,024.70	8,694,598.95	8,850,614.62	<b>975,009.03</b>
Including: Medical insurance	970,760.26	7,697,849.48	7,798,053.77	<b>870,555.97</b>
Work injury insurance	54,542.84	429,822.31	454,989.00	<b>29,376.15</b>
Maternity insurance	105,721.60	566,927.16	597,571.85	<b>75,076.91</b>
Housing funds	3,313.00	1,452,877.00	1,445,689.00	<b>10,501.00</b>
Labour union funds and employee education funds	388,843.79	1,836,146.87	1,980,931.57	<b>244,059.09</b>
Non-monetary benefits (Note)		971,141.76	971,141.76	
Sub-total	<u>17,596,690.68</u>	<u>144,336,077.67</u>	<u>147,376,529.99</u>	<u><b>14,556,238.36</b></u>

(Note): Non-monetary benefits during the period are all corresponding provision made on buildings and other assets provided to employee to use free of charge with an amount of RMB 971,141.76.



# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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	11,913,694.17	12,033,431.33	<b>1,075,609.88</b>
Unemployment insurance	125,067.97	483,922.09	569,758.92	<b>39,231.14</b>
Sub-total	<u>1,320,415.01</u>	<u>12,397,616.26</u>	<u>12,603,190.25</u>	<b><u>1,114,841.02</u></b>

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	<b>4,713,102.33</b>	3,081,430.03
Corporate income tax	<b>919,522.51</b>	6,795,400.05
Withhold of individual income tax	<b>409,429.01</b>	349,141.20
Urban maintenance and construction tax	<b>452,983.26</b>	347,861.52
Property tax	<b>815,904.32</b>	128,310.61
Others	<b>941,131.34</b>	421,988.06
Total	<b><u>8,252,072.77</u></b>	<u>11,124,131.47</u>

#### 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	<b>882,136.11</b>	917,833.33
Total	<b><u>882,136.11</u></b>	<u>917,833.33</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 20. Other payables

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Payable of temporary receipts		341,425.90
Deposits	<b>3,799,521.26</b>	3,759,950.06
Labour service company management fees	<b>159,965.22</b>	231,428.01
Others	<b>723,381.18</b>	997,187.92
Total	<b>4,682,867.66</b>	5,329,991.89

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

#### 21. 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)	<b>8,770,934.52</b>	7,471,124.64
Accrued expenses	<b>15,184,087.45</b>	18,539,258.71
Total	<b>23,955,021.97</b>	26,010,383.35

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 22. Long-term borrowings

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Special funds for treasury bonds	280,000.00 (Note 1)	830,000.00 (Note 1)
Long-term borrowings	8,800,000.00 (Note 2)	8,800,000.00 (Note 2)
Guaranteed loans	2,000,000.00 (Note 3)	
Total	<b>11,080,000.00</b>	9,630,000.00

(Note 1): These loans represented special funds for treasury bonds on key technological improvement projects of the State provided by the Ministry of Finance in Siping to the Company's subsidiary, Siping Steering Gear Co., Ltd.

(Note 2): These loans represented the interest-free capital loans from the Management Committee of the Tiedong Economic Development Zone in Siping to the Company's subsidiary, Jilin Shibao Machinery Manufacturing Co., Ltd., to expand production. The corresponding loans are not yet due for settlement.

(Note 3): These loans represented loans granted to the innovative ability incubation project under the "Small Technology Giants" plan of Wuhu City which was applied by Wuhu Sterling Steering System Co., Ltd., a subsidiary of the Company, according to the "Incubating Measures for the Enterprise Innovative Ability under the "Small Technology Giants" of Wuhu City" (Wu Zheng Ban Notification No. [2014] 15). In March 2016, the subsidiary, the Science and Technology Bureau of Wuhu City and the Science and Technology Innovation Bureau of the Economic Development Zone signed an incubation contract named the "Research and Development and Commercial Production of the Integral Aluminum Alloy Structural Steering Engine". An entrusted loan of RMB2,000,000.00 which shall be specifically used for the incubation of small technology giants was granted by Wuhu City Small and Medium-sized Enterprise Service Center Company Limited during the period, and the entrusted loan will be changed to government grants upon achieving all or over 80% of the expected goals of the incubation.

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

Item	Balance at the end of the period	Balance at the beginning of the period
Current or within 1 year		
Over 1 year but within 2 years		
Over 2 years but within 5 years	11,080,000.00	9,630,000.00
Over 5 years		
Sub-total	11,080,000.00	9,630,000.00
Including: Long-term loans due within 1 year		
Long-term loans due over 1 year	11,080,000.00	9,630,000.00

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 23. Deferred income

##### (1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period (Note)	Balance at the end of the period	Reason
Government grants	40,390,847.99	15,247,200.00	9,160,108.01	<b>46,477,939.98</b>	
Total	<u>40,390,847.99</u>	<u>15,247,200.00</u>	<u>9,160,108.01</u>	<b><u>46,477,939.98</u></b>	

(Note): Among this, government grants in relation to the assets to be amortized during the period of their use in the next year amounted to RMB 8,770,934.52 and were transferred to and stated under other current liabilities.

(2) For details of government grants which were credited to the profit or loss during the period, please see descriptions of government grants under others in the notes to the consolidated financial statements of notes to the financial statements.

#### 24. Share capital

##### (1) Breakdown

Item	Balance at the beginning of the period	Increase/-decrease during the period				Sub-total	Balance at the end of the period
		Issuance of new shares	Bonus shares	Transfer from reserves	Others		
Shares with selling restrictions							
Shares held by domestic legal person	82,693,613.00			124,040,419.00	-103,367,013.00	20,673,406.00	<b>103,367,019.00</b>
Shares held by domestic natural person	7,917,474.00			11,876,211.00		11,876,211.00	<b>19,793,685.00</b>
Shares without selling restrictions							
A Shares	138,532,768.00			207,799,152.00	103,367,013.00	311,166,165.00	<b>449,698,933.00</b>
H Shares	86,714,000.00			130,071,000.00		130,071,000.00	<b>216,785,000.00</b>
Total	<u>315,857,855.00</u>			<u>473,786,782.00</u>		<u>473,786,782.00</u>	<b><u>789,644,637.00</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 24. Share capital (continued)

##### (2) Increase/decrease during the period

- 1) Pursuant to the profit distribution proposal for 2016 and capitalisation of capital reserve plans passed at the 2017 annual general meeting of the Company, 15 Shares will be transferred to all Shareholders for every 10 Shares held out of the capital reserve fund. With a corresponding increase in share capital of RMB473,786,782.00, the total share capital will increase to 789,944,637 Shares (including 572,859,637 A Shares and 216,785,000 H Shares) upon the completion of transfer.
- 2) The 103,367,013 initial public offer A Shares of the Company held by Zhejiang Shibao Holding Group Co., Ltd. was released from the lock-up on 9 November 2017, accounts for 18.04% of the total number for A Shares of the Company, representing 13.09% of the total share capital of the Company.

#### 25. Capital reserve

##### (1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Share premium	652,592,565.17		473,786,782.00	<b>178,805,783.17</b>
Other capital reserve	6,444,389.04			<b>6,444,389.04</b>
Total	659,036,954.21		473,786,782.00	<b>185,250,172.21</b>

##### (2) Other disclosure

Description of the decrease in capital reserve during the period is set out in the notes to the financial statements provided for share capital.

#### 26. Surplus reserve

##### (1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory reserve funds	130,760,053.19	4,152,310.68		<b>134,912,363.87</b>
Total	130,760,053.19	4,152,310.68		<b>134,912,363.87</b>

##### (2) Other description

According to the Articles of Association, 10% of the net profit attributable to the Parent was appropriated to the statutory surplus reserve totaling RMB4,152,310.68 by the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 27. Retained earnings

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Retained earnings at end of last year before adjustment				
		<b>367,854,898.00</b>		341,181,295.69
Total amount of adjustment (increase +, decrease-)				
Retained earnings at the beginning of the year after adjustment		<b>367,854,898.00</b>		341,181,295.69
Add: Net profit attributable to equity holders of the Parent		<b>32,656,134.48</b>		63,487,549.38
Less: Transfer to statutory reserve funds		<b>4,152,310.68</b>		5,228,161.57
Dividends payable		<b>31,585,785.50</b>		31,585,785.50
Retained earnings at the end of the period		<b>364,772,936.30</b>		367,854,898.00

### (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	<b>1,138,328,762.71</b>	<b>944,003,187.42</b>	1,123,616,241.32	873,075,222.60
Revenue from other business	<b>15,927,505.25</b>	<b>5,371,873.26</b>	12,783,036.39	5,544,686.58
Total	<b>1,154,256,267.96</b>	<b>949,375,060.68</b>	1,136,399,277.71	878,619,909.18

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 2. Business taxes and surcharges

Item	Balance for the current period	Balance for the corresponding period last year
Business tax		39,817.65
Urban maintenance and construction tax	<b>2,537,389.15</b>	2,828,280.81
Education surcharge	<b>1,100,385.12</b>	1,241,825.39
Local education surcharge	<b>733,590.09</b>	821,889.58
Stamp duty (note)	<b>697,678.59</b>	298,311.62
Real estate tax (note)	<b>2,156,359.97</b>	1,121,567.53
Urban land use tax (note)	<b>2,810,418.50</b>	1,328,771.20
Vehicles and vessels use tax (note)	<b>27,111.13</b>	4,508.00
Total	<b>10,062,932.55</b>	7,684,971.78

(Note): According to the "Provisions Concerning the Accounting Treatments on Value-Added Tax" (Cai Hui No.: [2016] 22) and "Interpretation of Issues Concerning Provisions Concerning the Accounting Treatments on Value-Added Tax" of the Ministry of Finance, the stamp duty, real estate tax, urban land use tax, and vehicles and vessels use tax arising from the period between May 2016 and December 2017 had been presented in "taxes and surcharges", while those arising for the period prior to May 2016 were presented in "general and administrative expenses".

#### 3. Sales expenses

Item	Balance for the current period	Balance for the corresponding period last year
Transportation cost	<b>26,498,957.83</b>	23,661,769.21
Warranty fee	<b>21,772,201.09</b>	22,880,799.60
Wages, welfare and bonuses	<b>9,873,446.50</b>	9,419,313.62
Travelling expenses	<b>2,903,651.34</b>	3,509,917.37
Entertainment charge	<b>3,360,488.55</b>	4,506,823.03
Depreciation of fixed assets	<b>365,517.98</b>	464,574.09
Others	<b>6,338,688.84</b>	6,105,633.61
Total	<b>71,112,952.13</b>	70,548,830.53

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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	34,310,816.13	37,057,449.32
Research and development expenses	47,668,732.19	41,416,415.87
Office cost	5,822,789.43	7,163,643.43
Professional service fee	6,091,098.11	6,088,467.49
Depreciation of fixed assets	4,151,314.14	4,018,378.08
Amortization of intangible assets	6,492,150.85	6,712,047.33
Other taxation (Note)	420,558.10	1,502,638.71
Travelling expenses	2,962,149.58	2,661,716.91
Entertainment charge	2,697,608.05	2,577,012.09
Others	2,198,159.85	5,458,871.17
Total	<b>112,815,376.43</b>	<b>114,656,640.40</b>

(Note): For details, please refer to note to the business taxes and surcharges item in these notes to financial statements.

The audit fee of 2017 was RMB680,000.00 (2016: RMB680,000.00).

#### 5. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	1,020,578.90	615,268.47
Including: Bank loans, interests of other loans fully repayable within 5 years	1,020,578.90	615,268.47
Bank loans, interests of other loans not fully repayable within 5 years		
Interest income	-1,767,119.27	-3,019,350.23
Other	226,858.39	568,796.35
Including: Net exchange gains and losses	-79,065.03	5,060.37
Total	<b>-519,681.98</b>	<b>-1,835,285.41</b>

#### 6. Assets impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debts losses	-1,368,309.30	3,103,705.40
Provision for inventories losses	1,165,061.27	1,169,119.70
Total	<b>-203,248.03</b>	<b>4,272,825.10</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 7. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Gains from bank short-term products	7,975,271.12	7,161,219.04
Total	7,975,271.12	7,161,219.04

#### 8. Gains from disposal of assets

Item	Balance for this period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Gains from disposal of fixed assets	-689,980.17	557,779.90	-689,980.17
Total	-689,980.17	557,779.90	-689,980.17

#### 9. Other gains

Item	Balance for this period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Government grants	13,558,372.54		13,558,372.54
Total	13,558,372.54		13,558,372.54

Description of government grants included in other income during the period is set out in the notes to the consolidated financial statements provided for government grants under others.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 10. Non-operating income

##### (1) Breakdown

Item	Balance for this period	Balance for the same period last year	Amount recognized as non-recurring during the period
Gains and losses			
Government grants		10,514,414.10	
Transfer from payments not incurred	140,260.81		140,260.81
Others	124,492.64	783,188.93	124,492.64
Total	264,753.45	11,297,603.03	264,753.45

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

Item	Balance for the current period	Balance for the corresponding period last year	Asset related/revenue related	Description
Special funds for adjustment and improvement project for traditional industry bases including the Northeast Area		3,190,000.00	Asset related	Note 1
Construction project for development service platform of automotive steering system parts and components		1,461,881.33	Asset related	Note 2
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear		649,920.00	Asset related	Note 3
Technological improvement project for quality enhancement of rack-and-pinion steering gears		327,169.80	Asset related	Note 4
Special funds for establishment of a platform for public services provided in foreign trading		191,428.60	Asset related	Note 5
Special funds for establishment of a platform for public services provided in foreign trading		173,750.00	Asset related	Note 6

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

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

Item	Balance for the current period	Balance for the corresponding period last year	Asset related/revenue related	Description
Subsidy funds for the precious casting and processing of automotive components project		102,960.39	Asset related	Note 7
Heavy load hydraulic rack-and-pinion steering gear for high class market		77,013.36	Asset related	Note 8
Payment of subsidies of Provincial innovation policies		20,222.22	Asset related	Note 9
Subsidies for purchasing of equipment		12,411.11	Asset related	Note 10
Tax reduction		824,530.11	Revenue related	Note 11
Incentive funds in respect of land use tax of the Wuhu Economic and Technology Zone		792,000.00	Revenue related	Note 12
Incentive funds (subsidies) in respect of economic development policy of the Hangzhou Economic and Technology Zone		500,000.00	Revenue related	Note 13
Incentive funds (subsidies) in respect of 395,500.00 of economic development policy of the Hangzhou Economic and Technology Zone		395,500.00	Revenue related	Note 14
Subsidies for projects such as Machine substitution for human labor of Hangzhou of Hangzhou industrial and technology organizing funds		380,000.00	Revenue related	Note 15

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

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

Item	Balance for the current period	Balance for the corresponding period last year	Asset related/revenue related	Description
Special Fund for Technological Innovation of Jilin Province		300,000.00	Revenue related	Note 16
Stable Employment Subsidy by Hangzhou Employment Service Bureau		229,551.18	Revenue related	Note 17
Granting of Subsidies for Various Categories of High Level Talented People of Development Zone 2015		200,000.00	Revenue related	Note 18
Stable Employment Subsidy to Unemployment Insurance Supporting Enterprises of Siping		140,400.00	Revenue related	Note 19
Employment Subsidy of Wuhu		118,392.00	Revenue related	Note 20
Incentive funds for enterprises technological innovation		109,000.00	Revenue related	Note 21
Subsidy Fund to the Development Zone's Hangzhou "115" Overseas Talents Recruitment Programme, 2nd Round of 2014		100,000.00	Revenue related	Note 22
Others		218,284.00	Revenue related	
Sub-total		10,514,414.10		

Description of government grants included in other income during the period is set out in the notes to the consolidated financial statements provided for government grants under others.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

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

- (Note 1) "Reply of the Office of NDRC on Investment Project for Adjustment and Improvement for Traditional Industry Bases Including the Northeast Area within National Budget in 2010" 《《國家發展改革委辦公廳關於東北等老工業基地調整改造2010年中央預算內投資項目的復函》》 (Fa Gai Ban Chan Ye (2010) No.2684) (發改辦產產業[2010] 2684號)
- (Note 2) "Notice of Budget being Approved for Central Government Infrastructure Investment (2nd Batch of Urban and Old Industrial Zone Relocation and Upgrade) for 2015" 《《關於下達2015年中央基建投資(城區老工業區搬遷改造第二批)預算的通知》》 (Ji Cai Jian (2015) No.1038) (吉財建指[2015] 1038號) issued by Department of Finance of Jilin Province (吉林省財政廳)
- (Note 3) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou in 2013" 《《關於下達2013年杭州市工業統籌資金重大創新等項目資助資金的通知》》 (Hang Cai Qi (2013) No.1550) (杭財企[2013] 1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee (杭州市財政局、杭州市經濟和信息化委員)
- (Note 4) "Supporting Fund for Special Technological Upgrade and Internet-of-Things Projects in Manufacturing Sector on Provincial and Municipal Development Industrialization and Information Technology in 2015" 《《2015年省市工業和信息化發展財政專項技術改造和工廠物聯網項目資助資金》》 (Hang Jing Kai Jing (2015) No.353) (杭經開經[2015] 353號) issued by Bureau of Economic Development, Bureau of Finance of Hangzhou Economic and Technology Zone (杭州經濟技術開發區經濟發展局、財政局)
- (Note 5) "Notice of Granting of Special Funds for Public Services Provided in Foreign Trading 2013" 《《關於下達浙江省2013年度外貿公共服務平台建設專項資金的通知》》 (Hang Cai Qi (2014) No.648) (杭財企[2014] 648號) issued by Hangzhou Bureau of Finance and Hangzhou Foreign Trade and Economic Cooperation Bureau (杭州市財政局、杭州市對外貿易經濟合作局)
- (Note 6) "Notice of Granting of Special Funds for Public Services Provided in Foreign Trading 2012" 《《關於下達浙江省2012年度外貿公共服務平台建設專項資金的通知》》 (Hang Cai Qi (2013) No. 898) (杭財企[2013] 898號) issued by Hangzhou Bureau of Finance and Hangzhou Foreign Trade and Economic Cooperation Bureau (杭州市財政局、杭州市對外貿易經濟合作局)
- (Note 7) "Description of Subsidy Funds for the Precious Casting and Processing of Automotive Components Project" 《《關於汽車零部件精密鑄件及加工建設項目補貼資金的說明》》
- (Note 8) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou in 2013" 《《關於下達2013年杭州市工業統籌資金重大創新等項目資助資金的通知》》 (Hang Cai Qi (2013) No.1550) (杭財企[2013] 1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee.
- (Note 9) "Notice of Granting of Special Fund Program (Incentives and Subsidies) on Building Innovative Province of Anhui Province 2014" 《《關於下達2014年安徽省創新型省份建設專項資金計劃(獎補類)的通知》》 (Ke Ji (2014) No.58) (科計[2014] 58號) issued by Anhui Province Department of Science and Technology (安徽省科技廳)
- (Note 10) "Publicity of Acceptance of Industry Transform Projects and Investment of Individual Equipment Subsidies Projects" 《《關於承接產業轉移項目和單台設備投資補助項目的公示》》 issued by Wuhu Municipal economy and information technology department (蕪湖市經信委技術科)
- (Note 11) Reply notice of special tax treatment of Development Zone Branch of District Tax Bureau, Hangzhou
- (Note 12) "Notice of the Adjustment of 'Measures for Scope and Tax Standards in respect of Land Use Tax in Cities and Towns within Wuhu Economic and Technology Development Zone issued by Wuhu People's Government" 《《蕪湖市人民政府關於調整經濟技術開發區城鎮土地使用稅等級範圍和稅額標準的通知》》, "Notice of the Publication of 'Measures for Implementation of Incentive Fund Scheme in respect of Land Use Tax in Cities and Towns within Wuhu Economic and Technology Development Zone'" 《《關於印發〈蕪湖經濟技術開發區城鎮土地使用稅獎勵實施辦法〉的通知》》. "Guidelines on Incentive Scheme in respect of Land Use Tax in Jing Kai District in 2013" 《《2013年經開區土地使用稅獎勵操作細則》》 (Wu Zheng Mi 2013 No. 150) (蕪政秘[2013] 150號文) Kai Ban (2013) no. 201) (開辦[2013] 201號)

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

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

- (Note 13) "Notice of Granting of Supporting Fund to the Economic Development Policy Incentives in 2015"《關於下達2015年度經濟發展政策獎勵(補助)資金的通知》(Hang Jing Kai Guan Fa (2016) No.147) (杭經開發[2016] 147 號) issued by the Management Committee of Hangzhou Economic and Technology Zone (杭州經濟技術開發區管理委員會)
- (Note 14) "Supporting Fund to the Economic Development Policy Incentives in 2015"《(2015年度經濟發展政策獎勵(補助)資金》(Hang Jing Kai Guan Fa (2016) No.147) (杭經開發[2016] 147號) issued by the Management Committee of Hangzhou Economic and Technology Zone (杭州經濟技術開發區管理委員會)
- (Note 15) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Machinery Replacement Projects of Hangzhou in 2014"關於下達2014年杭州市工業統籌資金機器換入等項目資助資金的《通知》
- (Note 16) "Special Fund for Technological Innovation of Jilin Province"《(吉林省科技創新專項資金》(Ji Cai Jiao Zhi (2015) No.489) (吉財教指[2015] 489號) issued by Department of Finance of Jilin Province (吉林省財政廳)
- (Note 17) Notice of Implementing Subsidy Tasks of Social Insurance for Entities Promoting Employment (關於開展年度穩定就業單位社會保險補貼工作的通知) by Hangzhou Economic and Technology Zone (杭州經濟技術開發區)
- (Note 18) "Granting of Subsidies for Various Categories of High Level Talented People of Development Zone 2015"《(2015年度開發區各類高層次人才資助》(Hang Jing Kai Guan Bian Han (2016) No.43) (杭經開發便函[2016] 43號) by the Management Committee of Hangzhou Economic and Technology Zone (杭州經濟技術開發區管理委員會)
- (Note 19) "Notice of Publication of Measures on Stable Employment Subsidy to Unemployment Insurance Supporting Enterprises of Siping"《(關於印發四平市失業保險支持企業穩定崗位補貼辦法的通知》(Si Zheng Ban Fa (2015) No.79) (四政辦發[2015] 79號) issued by Siping People's Government (四平市人民政府)
- (Note 20) "Notice of Wuhu People's Government on Issues Concerning the Application of Unemployment Fund to Support Development of Enterprises"《(蕪湖市人民政府關於使用失業保險基金扶持企業發展有關問題的通知》(Wu Zheng Ban Mi (2016) Doc No.63) (蕪政辦秘[2016] 63號文) issued by Wuhu Bureau of Human Resources and Social Security (蕪湖市人力資源和社會保障局)
- (Note 21) "Notice of Publishing of Policies Related to Improvement of Enterprise Innovation by Wuhu Municipal Government"《(蕪湖市人民政府關於印發提升企業科技創新能力若干政策規定的通知》(Wu Zheng (2013) No.75) (蕪政[2013] 75號) issued by Wuhu Municipal Government
- (Note 22) "Subsidy Fund to the Development Zone's Hangzhou "115" Overseas Talents Recruitment Programme, 2nd Round of 2014"《(開發區2014年度第二批杭州市「115」引進國外智力計劃項目資助資金》(Hang Kai Jing Ren (2016) No.6) (杭經開人[2016] 6號) by Hangzhou Economic and Technology Zone Bureau of Human Resources and Social Security, Bureau of Finance (杭州經濟技術開發區人力資源和社會保障局、財政局)

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 11. Non-operating expenses

Item	Balance for the current period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Local water conservancy construction fund	275,552.07	791,083.57	
Others	127,576.45	84,228.08	127,576.45
Total	403,128.52	875,311.65	127,576.45

#### 12. Income tax expenses

##### (1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Current income tax calculated according to tax law and relevant provisions	5,436,046.82	13,714,217.59
Adjustment of deferred income tax	148,314.51	886,891.01
Total	5,584,361.33	14,601,108.60

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

Item	Balance for the current period	Balance for the corresponding period last year
Total profit	32,318,164.60	80,592,676.45
Income tax expenses calculated at legal/applicable tax rate	8,079,541.17	20,148,169.11
Effects of different applicable tax rates on subsidiaries	-2,391,855.14	-8,958,872.58
Effects of adjusting income tax of prior periods	174,021.51	170,785.89
Effects of non-taxable income	-823,240.08	-823,240.08
Effects of including and excluding R&D expenses	-1,668,879.17	-2,098,388.46
Effects of non-deductible costs, expenses and losses	850,625.13	4,163,395.29
The effect of utilization of deductible loss arising from deferred income tax assets not previously recognized	-987,188.06	-1,775,341.07
The effect of deductible temporary difference arising from unrecognized deferred income tax assets or deductible loss of the subsidiary suffering losses during the period	2,351,335.97	3,774,600.50
Income tax expenses	5,584,361.33	14,601,108.60

(3) No provision for Hong Kong profits tax has been made (2016: Nil) as the Company and its other subsidiaries had no profits generated in or arising from Hong Kong in 2017.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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	27,829,708.19	17,328,625.03
Receipt of government grants which are revenue related	5,572,400.57	4,307,657.29
Receipt of security deposit	353,000.00	1,300,000.00
Collection of current accounts		1,500,000.00
Interest income	1,767,119.27	3,019,350.23
Others	1,629,563.82	1,769,659.05
Total	<b>37,151,791.85</b>	<b>29,225,291.60</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	61,595,787.09	51,380,057.15
Cash paid as general and administrative expenses	22,804,845.75	22,889,120.38
Payment of deposits including banker's acceptances	23,917,026.58	27,829,708.19
Payment of current accounts		3,225,240.00
Payment of security deposits	635,915.49	1,383,756.91
Others	2,679,812.96	1,139,575.48
Total	<b>111,633,387.87</b>	<b>107,847,458.11</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	15,247,200.00	23,890,000.00
Total	<b>15,247,200.00</b>	<b>23,890,000.00</b>

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

Item	Balance for the current period	Balance for the corresponding period last year
Payment of equity transfer considerations to minority shareholders of subsidiaries		3,000,000.00
Up-front fee of non-public Issuance	755,977.61	
Total	<b>755,977.61</b>	<b>3,000,000.00</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 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	<b>26,733,803.27</b>	65,991,567.85
Add: Provision for impairment to assets	<b>-203,248.03</b>	4,272,825.10
Depreciation of fixed assets, oil and gas assets and production	<b>64,559,912.20</b>	58,051,820.09
Amortization of intangible assets	<b>9,229,126.20</b>	9,480,408.04
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	<b>689,980.17</b>	-557,779.90
Losses on write-off of fixed assets ("-" for gains)		
Losses on changes of fair value ("-" for gains)		
Financial expenses ("-" for gains)	<b>399,233.95</b>	620,328.84
Investment losses ("-" for gains)	<b>-7,975,271.12</b>	-7,161,219.04
Decrease in deferred income tax assets ("-" for increase)	<b>935,378.28</b>	1,761,316.76
Increase in deferred income tax liabilities ("-" for decrease)	<b>-787,063.77</b>	-874,425.75
Decrease in inventories ("-" for increase)	<b>-35,801,165.38</b>	6,232,771.80
Decrease in operational receivables ("-" for increase)	<b>-97,410,056.81</b>	-190,578,999.33
Increase in operational payables ("-" for decrease)	<b>1,526,972.99</b>	144,782,427.37
Others		
Net cash flows from operating activities	<b>-38,102,398.05</b>	92,021,041.83
2) Significant investment and financing activities not related to cash receipts and payments:		
Debt transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3) Net change in cash and cash equivalents:		
Cash at the end of the period	<b>160,425,712.97</b>	117,330,581.92
Less: Cash at the beginning of the period	<b>117,330,581.92</b>	486,048,673.31
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	<b>43,095,131.05</b>	-368,718,091.39

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

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

Item	Balance for the current period	Balance for the corresponding period last year
1) Cash	<b>160,425,712.97</b>	117,330,581.92
Including: Cash on hand	<b>309,027.11</b>	76,798.67
Bank deposit readily available	<b>160,116,685.86</b>	117,253,783.25
Other monetary fund readily available		
Central bank deposit readily available		
Interbank deposit		
Interbank offer		
2) Cash equivalents		
Including: Bond investment due in three months		
3) Closing balance of cash and cash equivalents	<b>160,425,712.97</b>	117,330,581.92
Including: Restricted cash and cash equivalents of parent or group subsidiaries		

Closing balance of cash and cash equivalents in the statement of cash flows for the year 2017 was RMB160,425,712.97 and closing balance of cash on hand and at bank in the balance sheet as at 31 December 2017 was RMB184,342,739.55. The difference of RMB23,917,026.58 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.

##### (3) The transferred endorsed commercial bill which do not involve in cash receipt and payment

Item	Balance for this period	Balance for the corresponding period last year
Transferred endorsed commercial bill	<b>735,956,818.47</b>	524,285,718.45
Including: bills payable	<b>691,400,592.40</b>	469,636,723.88
Payment for the purchase of long-term assets such as fixed assets	<b>44,556,226.07</b>	54,648,994.57

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (4) Others

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

Item	Carrying amount at the end of the period	Reason for restriction
Monetary funds	23,917,026.58	Security deposits
Bills receivable	52,375,112.49	Pledge
Fixed assets	4,606,221.82	Charge
Intangible assets	3,193,537.72	Charge
Total	<u>84,091,898.61</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			72,266.66
Including: US Dollar	8,956.03	6.5342	58,520.49
Euro	1,761.81	7.8023	13,746.17
Trade receivables			1,064,140.34
Including: US Dollar	37,190.28	6.5342	243,008.73
Euro	105,242.25	7.8023	821,131.61

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (4) Others (continued)

#### 3. Government grants

##### (1) Breakdown

##### 1) Government grants relating to assets

##### Total-value method

Item	Government grants at the beginning of the period	Addition of grants during the period	Amortization during the period (Note)	Government grants at the end of the period	Statement item of amortization during the period	Description
Special funds for adjustment and improvement project for traditional industry bases including the Northeast Area	15,839,166.68		3,190,000.00	12,649,166.68	Other gains	Note 1
Subsidy funds for the precious casting and processing of automotive components project	4,433,037.13		102,960.32	4,330,076.81	Other gains	Note 2
Special funds for establishment of a platform for public services provided in foreign trading	1,779,508.90		365,178.60	1,414,330.30	Other gains	Note 3
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	3,141,280.00		649,920.00	2,491,360.00	Other gains	Note 4
Heavy load hydraulic rack-and-pinion steering gear for high class market	372,231.04		77,013.36	295,217.68	Other gains	Note 5
Subsidies for research and development equipment	195,800.01		32,633.33	163,166.68	Other gains	Note 6
Technological improvement project for quality enhancement of rack-and-pinion steering gears	2,562,830.20	2,880,000.00	361,868.60	5,080,961.60	Other gains	Note 7
Construction project for development service platform of automotive steering system parts and components	19,538,118.67	4,740,000.00	3,026,249.16	21,251,869.51	Other gains	Note 8
The annual production of 100,000 electric power steering system project		1,270,000.00		1,270,000.00	Other gains	Note 9
The annual production of 100,000 medium and heavy duty commercial vehicles intelligent steering industrialization development project		4,000,000.00		4,000,000.00	Other gains	Note 10
Technical improvement project of production capacity increasing of 500,000 units/sets of steering gear		1,457,200.00	54,474.76	1,402,725.24	Other gains	Note 11
Key technological research project for high-safety smart automobile steer-by-wire system		900,000.00		900,000.00	Other gains	Note 12
Sub-total	47,861,972.63	15,247,200.00	7,860,298.13	55,248,874.50		
Including: deferred income	40,390,847.99			46,477,939.98		
Other current liabilities	7,471,124.64			8,770,934.52		

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (4) Others (continued)

#### 3. Government grants (continued)

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

##### 1) Government grants relating to assets (continued)

##### Total-value method (continued)

- (Note 1) "Reply of the Office of NDRC on Investment Project for Adjustment and Improvement for Traditional Industry Bases Including the Northeast Area within National Budget in 2010" 《(國家發展改革委辦公廳關於東北等老工業基地調整改造2010年中央預算內投資項目的復函)》(Fa Gai Ban Chan Ye (2010) No.2684) (發改辦產產業[2010] 2684號)
- (Note 2) "Description of Subsidy Funds for the Precious Casting and Processing of Automotive Components Project" (《關於汽車零部件精密鑄件及加工建設項目補貼資金的說明》)
- (Note 3) "Notice of Granting of Special Funds for Public Services Provided in Foreign Trading 2013" (《關於下達浙江省2013年度外貿公共服務平台建設專項資金的通知》) (Hang Cai Qi (2014) No.648) (杭財企[2014] 648號) issued by Hangzhou Bureau of Finance and Hangzhou Foreign Trade and Economic Cooperation Bureau (杭州市財政局、杭州市對外貿易經濟合作局) and "Notice of Granting of Special Funds for Public Services Provided in Foreign Trading 2012" (《關於下達浙江省2012年度外貿公共服務平台建設專項資金的通知》) (Hang Cai Qi (2013) No. 898) (杭財企[2013] 898號) issued by Hangzhou Bureau of Finance and Hangzhou Foreign Trade and Economic Cooperation Bureau (杭州市財政局、杭州市對外貿易經濟合作局)
- (Note 4) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou in 2013" (《關於下達2013年杭州市工業統籌資金重大創新等項目資助資金的通告》) (Hang Cai Qi (2013) No.1550) (杭財企[2013] 1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee (杭州市財政局、杭州市經濟和信息化委員)
- (Note 5) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou in 2013" (《關於下達2013年杭州市工業統籌資金重大創新等項目資助資金的通告》) (Hang Cai Qi (2013) No.1550) (杭財企[2013] 1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee.
- (Note 6) "Notice of Granting of Special Fund Program (Incentives and Subsidies) on Building Innovative Province of Anhui Province 2014" (《關於下達2014年安徽省創新型省份建設專項資金計劃(獎補類)的通知》) (Ke Ji (2014) No.58) (科計[2014] 58號) issued by Anhui Province Department of Science and Technology (安徽省科技廳) and "Publicity of Acceptance of Industry Transform Projects and Investment of Individual Equipment Subsidies Projects" (《關於承接產業轉移項目和單台設備投資補助項目的公示》) issued by Wuhu Municipal economy and information technology department (蕪湖市經信委技術科)
- (Note 7) "Supporting Fund for Special Technological Upgrade and Internet-of-Things Projects in Manufacturing Sector on Provincial and Municipal Development Industrialization and Information Technology in 2015" (《2015年省市工業和信息化發展財政專項技術改造和工廠物聯網項目資助資金》) (Hang Jing Kai Jing (2015) No.353) (杭經開經[2015] 353號) issued by Bureau of Economic Development, Bureau of Finance of Hangzhou Economic and Technology Zone (杭州經濟技術開發區經濟發展局、財政局)
- (Note 8) "Notice of Budget being Approved for Central Government Infrastructure Investment (2nd Batch of Urban and Old Industrial Zone Relocation and Upgrade) for 2015" (《關於下達2015年中央基建投資(城區老工業區搬遷改造第二批)預算的通知》) (Ji Cai Jian (2015) No.1038) (吉財建指[2015] 1038號) issued by Department of Finance of Jilin Province (吉林省財政廳)

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (4) Others (continued)

#### 3. Government grants (continued)

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

##### 1) Government grants relating to assets (continued)

##### **Total-value method (continued)**

(Note 9) Wuhu City confirmed subsidies for technology transformation project to strengthen industrial development base

(Note 10) Jilin Province Development and Reform Commission document of "Notice of Distributing and Granting Special Supporting Fund for Investment Project of Front-stage Work of Important Revitalization Project of All Northeastern Provinces within National Budget in 2017 by Jilin Province Development and Reform Commission" (《吉林省發展和改革委員會關於分解下達2017年全省東北振興重大項目前期工作專項資助資金中央預算內投資計劃的通知》) (Ji Gai Fa Tou Zi (2017) No. 428) (吉發改投資[2017]428號)

(Note 11) "Notice of Granting of Supporting Fund to Industrial Investment (Technology Transformation) Project of the Zone in 2016" (《關於下達2016年開發區工業投資(技術改造)項目資助資金的通知》) (Hang Jing Kai Guan Fa (2017) No.179) (杭經開管發[2017]179號) issued by the Management Committee of Hangzhou Economic and Technology Zone (杭州經濟技術開發區管理委員會)

(Note 12) Letter of Acceptance on Tender Topic of "Key Technological Research Project for High-safety Smart Automobile Steer-by-wire System (Tender No: SX2017-18)" issued by Beijing Municipal Science and Technology Committee (北京市科學技術委員會招標課題「高安全性智能汽車線轉向系統關鍵技術研究項目(招標編號: SX2017-18)」中標通知書)

Note: In this period, deferred income directly credited other gains amounted to RMB389,173.49, deferred income which will be amortized within 1 year under other current assets transferred to other gains amounted to RMB7,471,124.64.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (4) Others (continued)

#### 3. Government grants (continued)

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

- 2) Government grants related to income and used for compensating the relevant cost expense or loss incurred by the Company

Item	Amount	Presented items	Description
Key Technological Research Project for High-safety Smart Automobile steer-by-wire System (revenue-related portion)	2,100,000.00	Other gains	Note 1
2015 Supporting Funds for Enterprises' Investment in R&D of Hangzhou Economic and Technology Zone	863,000.00	Other gains	Note 2
Tax Incentives per Acre of the Wuhu Economic and Technology Zone	748,100.00	Other gains	Note 3
Government Environmental Protection Subsidy of Tiedong District, Siping	480,000.00	Other gains	Note 4
2016 Stable Employment Subsidy of Hangzhou	204,763.84	Other gains	Note 5
Intellectual Property Incentives of Wuhu	200,000.00	Other gains	Note 6
Special Incentives for Enhancement of Enterprises' Technological Innovation Capability of Wuhu	185,000.00	Other gains	Note 7
Supporting Funds for Environment Remediation Project of Hangzhou Economic and Technology Zone	235,361.00	Other gains	Note 8
Tax Rebate	125,673.84	Other gains	Note 9
Other Government Grants	556,175.73	Other gains	
Sub-total	<u>5,698,074.41</u>		

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (4) Others (continued)

#### 3. Government grants (continued)

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

- 2) Government grants related to income and used for compensating the relevant cost expense or loss incurred by the Company (continued)

(Note 1) Letter of Acceptance on Tender Topic of "Key Technological Research Project for High-safety Smart Automobile Steer-by-wire System (Tender No: SX2017-18)" issued by Municipal Science and Technology Committee (北京市科學技術委員會招標課題「高安全性智能汽車線轉向系統關鍵技術研究項目(招標編號: SX2017-18)」中標通知書)

(Note 2) Notice of Granting 2015 Supporting Funds for Enterprises' Investment in R&D issued by Management Committee of Hangzhou Economic and Technology Zone (Hang Jing Kai Guan Fa (2017) No. 3) (杭州經濟技術開發區管理委員會關於下達2015年開發區企業研發投入資助的通知(杭經開管發[2017]3號))

(Note 3) "Notice of the Adjustment of 'Measures for Scope and Tax Standards in respect of Land Use Tax in Cities and Towns within Wuhu Economic and Technology Development Zone issued by Wuhu Municipal People's Government" (《蕪湖市人民政府關於調整經濟技術開發區城鎮土地使用稅等級範圍和稅額標準的通知》), "Notice of the Publication of 'Measures for Implementation of Incentive Fund Scheme in respect of Land Use Tax in Cities and Towns within Wuhu Economic and Technology Development Zone'" (《關於印發〈蕪湖經濟技術開發區城鎮土地使用稅獎勵實施辦法〉的通知》)

(Note 4) Implementation Measures on Reward over Compensation for Eliminating Coal-fired Boilers in Urban Area of Siping (《四平市市區淘汰燃煤小鍋爐以獎代補政策實施辦法》)

(Note 5) Publicity of List of Enterprises Entitled to Stable Employment Subsidy of Hangzhou in 2016 by Hangzhou Employment Service Bureau (杭州市就業管理服務局關於對2016年度杭州市享受穩定崗位補貼企業名單的公示)

(Note 6) Opinions of Wuhu Municipal People's Government on Implementation of City of Quality Campaign issued by Wuhu Municipal People's Government (Wu Zheng (2013) No.1), Wu Zheng (2011) No.90) (蕪湖市人民政府《蕪湖市人民政府關於開展質量強市活動的實施意見》(蕪政[2013]1號、蕪政[2011]90號))

(Note 7) "Notice of Publishing of Policies Related to Improvement of Enterprise Innovation by Wuhu Municipal People's Government" (《蕪湖市人民政府關於印發提升企業科技創新能力若干政策規定的通知》) (Wu Zheng (2013) No.75) (蕪政[2013] 75號) issued by Wuhu Municipal People's Government

(Note 8) Special Grants for Coated Steel Room (Shed) Remediation Work of Enterprises to Meet G20 (迎接G20專項補助企業彩鋼房(棚)整治工程)

(Note 9) Reply Notice of Special Tax Treatment Issued by Development Zone Branch of Hangzhou Local Taxation Bureau (杭州市地方稅務局開發區稅務分局稅費優惠批覆通知書)

- (2) Government grants credited to the current profit or loss for the period amounted to RMB13,558,372.54.

#### 4. Interest expenses

Item	During the period	Corresponding period of the previous year
Interest expenses	<b>1,020,578.90</b>	615,268.47
Including: Bank loans, interests of other loans fully repayable within 5 years	<b>1,020,578.90</b>	615,268.47
Interests of other loans not fully repayable within 5 years		
Less: Capitalized interests		
Finance cost — interest expenses	<b>1,020,578.90</b>	615,268.47

During 2016 and 2017, there was no interest capitalization.



# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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 Auto Steering Gear Co., Ltd.	Zhejiang Hangzhou/PRC	Zhejiang Hangzhou/PRC	Manufacturing	100.00		Establishment
Hangzhou New Shibao Electric Power Steering Co., Ltd.	Zhejiang Hangzhou/PRC	Zhejiang Hangzhou/PRC	Manufacturing	70.00		Establishment
Jilin Shibao Machinery Manufacturing Co., Ltd.	Jilin Siping/PRC	Jilin Siping/PRC	Manufacturing	100.00		Establishment
Siping Steering Gear Co., Ltd.	Jilin Siping/PRC	Jilin Siping/PRC	Manufacturing	100.00		Establishment
Beijing Autonics Technology Co., Ltd.	Beijing/PRC	Beijing/PRC	Manufacturing	100.00		Business combination not under common control
Wuhu Sterling Steering System Co., Ltd.	Anhui Wuhu/PRC	Anhui Wuhu/PRC	Manufacturing	57.89		Business combination not under common control
Erdos Sterling Steering System Co., Ltd.	Inner Mongolia/PRC	Inner Mongolia/PRC	Manufacturing		57.89	Business combination not under common control

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

Name of subsidiary	Percentage of shareholding of minority shareholders	Profit/loss contributed to minority shareholders of the current period	Declared dividends distribution to minority shareholders of the current period	Balance of minority shareholders' equity at the end of the period
Hangzhou New Shibao Electric Power Steering Co., Ltd.	30.00	-3,042,649.16		-2,073,300.62
Wuhu Sterling Steering System Co., Ltd.	42.11	-2,879,682.05		16,508,716.31

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

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

##### (1) Assets and liabilities

Name of subsidiary	Current assets	Non-current assets	As at the end of the period			Total liabilities
			Total assets	Current liabilities	Non-current liabilities	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	227,143,094.03	74,531,081.83	301,674,175.86	307,536,026.21	1,049,151.70	308,585,177.91
Wuhu Sterling Steering System Co., Ltd.	112,657,872.19	58,444,734.91	171,102,607.10	125,586,157.35	6,312,658.96	131,898,816.31

Name of subsidiary	Current assets	Non-current assets	As at the beginning of the period			Total liabilities
			Total assets	Current liabilities	Non-current liabilities	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	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 Steering System Co., Ltd.	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	Revenue	Net profit	Balance for the current period	
			Total comprehensive income	Cash flows from operating activities
Hangzhou New Shibao Electric Power Steering Co., Ltd.	257,548,019.26	-10,142,163.87	-10,142,163.87	11,797,901.59
Wuhu Sterling Steering System Co., Ltd.	117,638,732.37	-6,838,475.53	-6,838,475.53	-1,093,438.86

Name of subsidiary	Revenue	Net profit	Balance for the corresponding period last year	
			Total comprehensive income	Cash flows from operating activities
Hangzhou New Shibao Electric Power Steering Co., Ltd.	223,110,942.89	2,899,876.51	2,899,876.51	-12,560,373.56
Wuhu Sterling Steering System Co., Ltd.	144,326,890.40	4,668,691.42	4,668,691.42	8,576,690.78

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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>817,874,267.36</b>	712,968,559.97
Including: Cash on hand and at bank	<b>184,342,739.55</b>	145,160,290.11
Notes receivable	<b>114,302,216.24</b>	162,714,933.93
Accounts receivable	<b>512,761,243.71</b>	398,849,055.72
Other receivables	<b>6,468,067.86</b>	6,244,280.21
Financial liabilities	<b>529,884,642.98</b>	493,745,801.92
Including: Bank borrowings	<b>11,080,000.00</b>	9,630,000.00
Notes payable	<b>105,976,263.36</b>	118,716,837.78
Accounts payable	<b>391,592,296.47</b>	340,234,033.23
Employee benefits payable	<b>15,671,079.38</b>	18,917,105.69
Interests payable	<b>882,136.11</b>	917,833.33
Other payables	<b>4,682,867.66</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 risks of the Company arise primarily from bank deposits and accounts receivable. In order to control the relevant risks above, the Company has taken the following measures respectively.

#### 1. Bank deposits

The Company places bank deposits in financial institutions with higher credit ratings, therefore its credit risks are low.

#### 2. Accounts receivable

The Company continuously conducts credit assessment on customers who trade on credit terms. Based on the assessment results, the Company chooses to trade with recognized and creditworthy customers, and carries out control on their accounts receivable balances to ensure that the Company's exposure to bad debts is not significant.

As the Company trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As at 31 December 2017, the Company had certain concentration of credit risk as 36.09% (31 December 2016: 31.81%) of the Company's accounts receivable were due from the five largest customers. The Company does not hold any collateral or other credit enhancements over the balance of accounts receivable.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (2) Credit risk (continued)

- (1) 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	Balance at the end of the period				Total
	Neither past due nor impaired	Past due but not impaired			
		Within 1 year	1-2 years	Over 2 years	
Cash on hand and at bank	184,342,739.55				184,342,739.55
Notes receivable	114,302,216.24				114,302,216.24
Accounts receivable	508,867,443.02	3,034,967.39	342,177.06	516,656.24	512,761,243.71
Other receivables	6,468,067.86				6,468,067.86
<b>Total</b>	<b>813,980,466.67</b>	<b>3,034,967.39</b>	<b>342,177.06</b>	<b>516,656.24</b>	<b>817,874,267.36</b>

Item	Balance at the beginning the period				Total
	Neither past due nor impaired	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
<b>Total</b>	<b>710,697,315.71</b>	<b>1,678,355.69</b>	<b>291,061.94</b>	<b>301,826.63</b>	<b>712,968,559.97</b>

- (2) Details of the receivables with provision separately made are set out in the notes to the financial statements provided for receivables under notes to the consolidated financial statements.

### (3) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations that are settled by delivering cash or another financial assets. Liquidity risk may arise when the Company 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 Company could be required to pay its liabilities earlier than expected; or the Company could not obtain sufficient cash flow as expected.

For the purpose of controlling the risk, the Company maintains 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

For the year 2017 | (RMB Yuan) | (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	184,342,739.55	184,342,739.55	184,342,739.55		
Notes receivable	114,302,216.24	114,302,216.24	114,302,216.24		
Accounts receivable	512,761,243.71	512,761,243.71	512,761,243.71		
Other receivables	6,468,067.86	6,468,067.86	6,468,067.86		
<b>Total</b>	<b>817,874,267.36</b>	<b>817,874,267.36</b>	<b>817,874,267.36</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>		

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (3) Liquidity risk (continued)

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

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank and other borrowings	11,080,000.00	11,312,000.00		2,190,000.00	9,122,000.00
Notes payable	105,976,263.36	105,976,263.36	105,976,263.36		
Accounts payable	391,592,296.47	391,592,296.47	391,592,296.47		
Employee benefits payable	15,671,079.38	15,671,079.38	15,671,079.38		
Interest payable	882,136.11	882,136.11	882,136.11		
Other payables	4,682,867.66	4,682,867.66	4,682,867.66		
Total	<u>529,884,642.98</u>	<u>530,116,642.98</u>	<u>518,804,642.98</u>	<u>2,190,000.00</u>	<u>9,122,000.00</u>

Item	Carrying value	Balance at the beginning of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank 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		
Employee benefits 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		
Total	<u>493,745,801.92</u>	<u>493,911,801.92</u>	<u>484,115,801.92</u>		<u>9,796,000.00</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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 of 31 December 2017, the Company's bank borrowings with floating interest rates were RMB0.00 (31 December 2016: RMB0.00) and will not have any significant impact on total profit and shareholders' equity of the Company, assuming other variables held constant and a 50 basis point change in interest rates.

#### 2. Foreign exchange risk

Foreign exchange risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to 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.

For the Company's monetary assets and liabilities in foreign currencies at the end of the period, please see monetary items in foreign currencies under others in notes to the consolidated financial statements of notes to this financial statements.

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. As at 31 December 2017, the Company's gearing ratio was -11.15% (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	11,080,000.00	9,630,000.00
Less: Cash and cash equivalents	160,425,712.97	117,330,581.92
Net debt	-149,345,712.97	-107,700,581.92
Equity	1,489,015,525.07	1,493,867,507.30
Total capital	1,339,669,812.10	1,386,166,925.38
Gearing ratio	-11.15%	-7.77%

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (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	43.56	43.56

At the beginning of the period, Zhejiang Shibao Holding Group Co., Ltd. ("Shibao Holding"), the controlling shareholder of the Company, pledged 5,000,000 shares of A Share out of the shares of the Company held by it (representing 1.58% of the total share capital of the Company) to Caitong Securities Co., Ltd. On 17 May 2017, Shibao Holding further pledged 2,000,000 shares of A Share out of the shares of the Company held by it (representing 1.44% of the total share capital of the Company) to Caitong Securities Co., Ltd. for the holders of 2016 exchangeable private bonds of Shibao Holding to exchange shares and to provide additional guarantee for the payment of principal and interests of such convertible bonds. The registration procedure for the above pledge of shares has been completed with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch and the term for pledge of 7,000,000 shares of A Share above in total ends on the date when Shibao Holding completes the registration procedure for the release of pledge with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch.

On 31 December 2017, bondholders of the 2016 convertible bonds of Shibao Holding (RMB100,000,000 in total with a duration of 2 years) exercised their conversion rights to convert their bonds at the exercise price RMB11.96 per A Share into 3,558,527 A Shares of Zhejiang Shibao. Accordingly, Shibao Holding's shareholding in Zhejiang Shibao reduced from 347,506,529 shares to 343,948,002 Shares, in terms of percentage in total share capital, its shareholding interest decreased from 44.01% to 43.56%.

As at the date of the approval of this financial report, Shibao Holding holds 343,948,002 shares of A Share of the Company, and the number of pledged shares is 13,941,473 shares of A Share, representing 4.05% of shares of the Company held by it.



# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

### (1) Related parties (continued)

#### 1. Parent company (continued)

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

2. Details of the Company's subsidiaries are set out in the notes to the financial statements provided for owner's equity in other entities.

### (2) Related parties transactions

#### Guarantee with related parties

The Company and its subsidiaries as the secured parties

Guarantor	Guaranteed amount (RMB0,000)	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fully fulfilled	Remarks
Shibao Holding	200.00	2017.01.18	2020.01.17	No	Long-term loans
Mr. Zhang Shi Quan	1,057.04	2017.07.12– 2017.12.06	2018.01.12– 2018.06.06	No	Banker's acceptance
Mr. Zhang Shi Quan, Shibao Holding	324.26	2017.08.29– 2017.09.13	2018.02.28– 2018.03.14	No	Banker's acceptance
Shibao Holding	1,660.00	2017.08.04	2018.02.04	No	Banker's acceptance

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

Item	Related party	Balance at the end of the period	Balance at the beginning of the period
Notes payable	Zhejiang Shibao (Note)	<b>2,245,000.00</b>	
	Hangzhou Shibao (Note)	<b>2,335,404.66</b>	9,626,048.97
	Jilin Shibao (Note)	<b>4,079,900.00</b>	3,250,000.00
	Hangzhou New Shibao (Note)		170,000.00
	Beijing Autonics (Note)	<b>4,478,297.68</b>	7,821,485.08
Total		<b>13,138,602.34</b>	20,867,534.05

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 1. Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	3,227,400.40	3,113,960.53
Other key management	1,035,176.50	949,081.01
<b>Total</b>	<b>4,262,576.90</b>	<b>4,063,041.54</b>

#### 2. Remuneration of Directors and Supervisors

Item	Balance for the current period					Total
	Fee	Salaries, bonus, allowances and subsidies	Housing funds	Pension	Other social insurance	
Executive Directors:		2,000,000.04	87,300.00	71,045.10	70,537.65	2,228,882.79
Zhang Shi Quan		600,000.00				600,000.00
Zhang Bao Yi		500,000.04	30,012.00	23,681.70	23,512.55	577,206.29
Tang Hao Han		500,000.04	27,276.00	23,681.70	23,512.55	574,470.29
Zhang Lan Jun		399,999.96	30,012.00	23,681.70	23,512.55	477,206.21
Non-executive Directors:		309,996.12	2,200.00	16,833.60	10,252.46	339,282.18
Zhang Shi Zhong		249,996.00	2,200.00	16,833.60	10,252.46	279,282.06
Zhu Jie Rong		60,000.12				60,000.12
Independent non-executive Directors:	217,275.24					217,275.24
Zhang Hong Zhi	30,000.00					30,000.00
Guo Kong Hui	60,000.12					60,000.12
Shum Shing Kei	127,275.12					127,275.12
Supervisors:		394,765.94		23,681.70	23,512.55	441,960.19
Du Min		118,500.00				118,500.00
Shen Song Sheng		40,200.06				40,200.06
Wu Lang Ping		188,065.88		23,681.70	23,512.55	235,260.13
Yang Di Shan		24,000.00				24,000.00
Feng Yan		24,000.00				24,000.00
<b>Total</b>	<b>217,275.24</b>	<b>2,704,762.10</b>	<b>89,500.00</b>	<b>111,560.40</b>	<b>104,302.66</b>	<b>3,227,400.40</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 2. Remuneration of Directors and Supervisors (continued)

Item	Fee	Balance for the corresponding period last year				Total
		Salaries, bonus, allowances and subsidies	Housing funds	Pension	Other social insurance	
Executive Directors:		2,000,000.04	68,820.00	65,166.00	64,700.52	2,198,686.56
Zhang Shi Quan		600,000.00				600,000.00
Zhang Bao Yi		500,000.04	22,962.00	21,722.00	21,566.84	566,250.88
Tang Hao Han		500,000.04	22,896.00	21,722.00	21,566.84	566,184.88
Zhang Lan Jun		399,999.96	22,962.00	21,722.00	21,566.84	466,250.80
Non-executive Directors:		319,996.11	2,400.00	16,833.60	10,593.14	349,822.85
Zhang Shi Zhong		249,996.00	2,400.00	16,833.60	10,593.14	279,822.74
Zhu Jie Rong		70,000.11				70,000.11
Independent non-executive Directors:	217,275.24					217,275.24
Zhang Hong Zhi	30,000.00					30,000.00
Guo Kong Hui	60,000.12					60,000.12
Shum Shing Kei	127,275.12					127,275.12
Supervisors:		318,043.88		15,120.00	15,012.00	348,175.88
Du Min		96,000.00				96,000.00
Shen Song Sheng		36,000.00				36,000.00
Wu Lang Ping		138,043.88		15,120.00	15,012.00	168,175.88
Yang Di Shan		24,000.00				24,000.00
Feng Yan		24,000.00				24,000.00
<b>Total</b>	<b>217,275.24</b>	<b>2,638,040.03</b>	<b>71,220.00</b>	<b>97,119.60</b>	<b>90,305.66</b>	<b>3,113,960.53</b>

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

During the year, the five highest paid employees include three (2016: four) Directors and details of their remunerations are set out in note 8.(4)2 to the financial statements. The remuneration of the remaining two (2016: one) employees who are not director is as follows:

Item	Number for the current period	Number for the corresponding period last year
HK\$ Nil-HK\$1 million	2	1

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

## 9. COMMITMENTS AND CONTINGENCIES

### (1) Commitments

#### 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	63,565,872.08	47,345,192.19

### (2) Contingencies

As of the balance sheet date, the Company does not have important contingencies that need to be disclosed.

## 10. EVENTS AFTER THE BALANCE SHEET DATE

### Distribution of profits after the balance sheet date

#### Profit distribution for 2017

Pursuant to the profit distribution proposal for 2017 passed at the 34th meeting of the fifth session of the Board of the Company held on 23 March 2018, the Company will not declare cash dividend, issue bonus Shares or increase capital by transferring from capital reserve fund. The aforementioned profit distribution proposal is subject to approval at the annual general meeting.

## 11. OTHER IMPORTANT MATTERS

### (1) Segment Information

#### 1. Operating segment

As the operations and assets of both the Company and its subsidiaries are related to automotive steering system and components and are mainly located in Mainland China where 93.96% of the revenue was generated from domestic sales, no detailed segment information is required to be disclosed.

#### 2. Information about major customers

(1) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company in 2017 is as follows:

Name of customer	Revenue	Proportion to total revenue of the Company (%)
Zhejiang Yuanjing Auto Parts Co., Ltd.	130,461,385.04	11.30

(2) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company in 2016 is as follows:

Name of customer	Revenue	Proportion to total revenue of the Company (%)
SAZEH GOSTAR SAIPA CO.	157,185,830.00	13.83

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

## 11. OTHER IMPORTANT MATTERS (continued)

### (2) Other financial information

Item	Balance at the end of the period		Balance at the beginning of the period	
	Consolidated	The Parent	Consolidated	The Parent
Net current assets	689,857,330.13	511,863,325.29	753,017,937.85	536,175,810.12
Total assets less current liabilities	<u>1,550,030,299.04</u>	<u>1,105,222,908.71</u>	<u>1,548,132,253.05</u>	<u>1,095,285,587.37</u>

### (3) Other major transactions and events that have an impact on investors' decisions

1. Pursuant to the "Approval in relation to the Non-Public Issuance of Shares by Zhejiang Shibao Company Limited" (Zheng Jian Xu Ke [2017] No. 2379) issued by the China Securities Regulatory Commission on 25 December 2017, the non-public issuance of a maximum of 62,146,892 RMB ordinary shares (A Share) of the Company is approved and the approval shall be valid for a period of six months from the date of the approval. As of the approval date of the financial statements, the Company has not completed the above non-public issuance.
2. As at the date of the approval of this financial report, both the Company and its subsidiaries have not completed the procedures for the settlement of the Enterprise Income Tax for 2017.

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 1. Accounts receivable

##### (1) Breakdown

##### 1) Breakdown by types

Types	Balance at the end of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Individually significant amount with bad debt provision on individual basis	64,943,331.12	99.55			64,943,331.12
Individually insignificant but significant based on credit risk characteristics	292,979.00	0.45	292,979.00	100.00	
Individually insignificant amount with bad debt provision on individual basis					
<b>Total</b>	<b>65,236,310.12</b>	<b>100.00</b>	<b>292,979.00</b>	<b>0.45</b>	<b>64,943,331.12</b>

Types	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Individually significant amount with bad debt provision on individual basis	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	
Individually insignificant amount with bad debt provision on individual basis					
<b>Total</b>	<b>70,305,853.40</b>	<b>100.00</b>	<b>292,979.00</b>	<b>0.42</b>	<b>70,012,874.40</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	Proportion (%)		Amount	Proportion (%)	
Within 1 year	17,924,758.82	27.48		28,616,682.26	40.70	
1-2 years	47,018,572.30	72.07		41,396,192.14	58.88	
2-3 years						
Over 3 years	292,979.00	0.45	292,979.00	292,979.00	0.42	292,979.00
<b>Sub-total</b>	<b>65,236,310.12</b>	<b>100.00</b>	<b>292,979.00</b>	<b>70,305,853.40</b>	<b>100.00</b>	<b>292,979.00</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 1. Accounts receivable (continued)

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

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Receivables of sales payment from Wuhu Sterling	64,943,331.12			Individual impairment test showed no risk was expected of balance recover
Sub-total	64,943,331.12			

- 4) Provision for bad debt by groups

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

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

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

- (4) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
Wuhu Sterling (蕪湖世特瑞轉向系統有限公司)	64,943,331.12	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. Shiyang 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	65,180,501.12	99.92	237,170.00

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 2. Other receivables

##### (1) Breakdown

##### 1) Breakdown by types

Types	Balance at the end of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Individually significant amount with bad debt provision on individual basis	343,598,104.01	99.71			343,598,104.01
Individually insignificant but significant based on credit risk characteristics	209,935.96	0.06			209,935.96
Individually insignificant amount with bad debt provision on individual basis	800,484.38	0.23			800,484.38
<b>Total</b>	<b>344,608,524.35</b>	<b>100.00</b>			<b>344,608,524.35</b>

Types	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Individually significant amount with bad debt provision on individual basis	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>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		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	45,210,189.07	13.12		103,233,599.47	32.60	
1-2 years	136,051,146.92	39.48		62,130,958.53	19.62	
2-3 years	17,273,728.93	5.01		47,823,000.60	15.10	
Over 3 years	146,073,459.43	42.39		103,453,988.33	32.68	
<b>Sub-total</b>	<b>344,608,524.35</b>	<b>100.00</b>		<b>316,641,546.93</b>	<b>100.00</b>	



# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 2. Other receivables (continued)

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

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Receivables of sales payment from Jilin Shibao and others	343,598,104.01			Individual impairment test showed no risk was expected of balance recover
Sub-total	343,598,104.01			

- 4) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	209,935.96		
Sub-total	209,935.96		

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

Description	Carrying amount	Provision for bad debt	Provision (%)	Reason for provision
Other receivables of individual imprest and others	800,484.38			Individual impairment test showed no risk was expected of balance recover
Sub-total	800,484.38			

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

- (3) There were no other receivables practically written-off for the current 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
Current accounts	343,598,104.01	316,253,272.25
Security deposits	145,129.50	217,059.00
Imprest	11,154.32	74,809.22
Others	854,136.52	96,406.46
Sub-total	344,608,524.35	316,641,546.93

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 2. Other receivables (continued)

(5) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Age	Percentage to the balance of other receivables (%)	Provision for bad debts
Jilin Shibao	Current account	114,290,000.00	1-2 years, 2-3 years	33.17	
Beijing Autonics	Current account	99,208,817.00	Within 1 year, 1-2 years, 2-3 year, Over 3 years	28.79	
Hangzhou New Shibao	Current account	96,733,772.28	Within 1 year, 1-2 years, 2-3 years, Over 3 years	28.07	
Siping Steering	Current account	22,072,188.33	1-2 years, 2-3 years, Over 3 years	6.41	
Hangzhou Shibao	Current account	11,293,326.40	Within 1 year	3.28	
Sub-total		<u>343,598,104.01</u>		<u>99.72</u>	

#### 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	<u>185,159,214.87</u>		<u>185,159,214.87</u>	185,159,214.87		185,159,214.87
Total	<u>185,159,214.87</u>		<u>185,159,214.87</u>	185,159,214.87		185,159,214.87

(2) Investment in subsidiaries

Investees	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Provision for impairment during the period	Provision for impairment at the end of the period
Hangzhou Shibao	70,461,807.49			<u>70,461,807.49</u>		
Hangzhou New Shibao	42,000,000.00			<u>42,000,000.00</u>		
Siping Steering	13,250,000.00			<u>13,250,000.00</u>		
Jilin Shibao	30,000,000.00			<u>30,000,000.00</u>		
Beijing Autonics	10,000,000.00			<u>10,000,000.00</u>		
Wuhu Sterling	19,447,407.38			<u>19,447,407.38</u>		
Sub-total	<u>185,159,214.87</u>			<u>185,159,214.87</u>		

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

Item	Balance at the end of the period	Balance at the beginning of the period
Investment in non-public listed companies	<u>185,159,214.87</u>	185,159,214.87
Total	<u>185,159,214.87</u>	185,159,214.87

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

#### 1. Revenue/cost of sales

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Revenue from main business	48,299,522.47	41,688,136.34	43,829,423.05	31,691,070.03
Revenue from other business	284,505.39	149,242.89	408,346.70	267,134.57
Total	48,584,027.86	41,837,379.23	44,237,769.75	31,958,204.60

#### 2. Investment gains

##### (1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from long-term equity investments under cost method of accounting	40,000,000.00	40,000,000.00
Gains from short-term bank wealth management products	4,033,486.69	3,444,054.81
Total	44,033,486.69	43,444,054.81

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

Investee	Balance for the current period	Balance for the corresponding period last year	Reasons of increase/decrease as compared with the previous period
Hangzhou Shibao	40,000,000.00	40,000,000.00	No change as compared with the previous period
Sub-total	40,000,000.00	40,000,000.00	

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

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from non-public listed companies	40,000,000.00	40,000,000.00
Sub-total	40,000,000.00	40,000,000.00

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

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

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

Supplemental information	Balance for the current period	Balance for the corresponding period last year
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	41,523,106.84	45,957,957.43
Add: Provision for impairment to assets		
Depreciation of fixed assets, oil and gas assets and production	1,513,898.95	1,356,474.39
Amortization of intangible assets	1,373,336.64	1,860,836.64
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets (“-” for gains)	42,968.52	-20,545.04
Losses on write-off of fixed assets (“-” for gains)		
Losses on changes of fair value (“-” for gains)		
Financial expenses (“-” for gains)	-3,788,551.85	-3,404,295.25
Investment losses (“-” for gains)	-44,033,486.69	-43,444,054.81
Decrease in deferred income tax assets (“-” for increase)		
Increase in deferred income tax liabilities (“-” for decrease)		
Decrease in inventories (“-” for increase)	485,041.53	1,815,871.35
Decrease in operational receivables (“-” for increase)	-14,558,956.43	-7,511,738.78
Increase in operational payables (“-” for decrease)	14,695,710.12	645,926.83
Others		
Net cash flows from operating activities	<b>-2,746,932.37</b>	-2,743,567.24
2) Significant investment and financing activities not related to cash receipts and payments:		
Debt transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3) Net change in cash and cash equivalents:		
Cash at the end of the period	16,695,331.03	11,148,732.88
Less: Cash at the beginning of the period	11,148,732.88	162,709,790.82
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	<b>5,546,598.15</b>	-151,561,057.94

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

## 13. OTHER IMPORTANT MATTERS

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

Item	Amount	Description
Gain or loss on disposal of non-current assets, inclusive of provision for assets impairment write-off	-689,980.17	
Unauthorised approvals or items without duly approved documents, or occasional tax rebate or tax credits		
Government grants (except for government grants which are closely related to the Company's ordinary business and conforms with the national policies as well as standard amount and quantities or continuous government grants) recognized in gains or losses during the current period	13,558,372.54	
Fees for usage of funds received from non-financial enterprises recognized in profits and losses during the current period		
Investment costs paid by the investor in acquiring the subsidiaries, associates and joint ventures less the gain derived from the fair value of the investee's identifiable net assets at the time of investment		
Profit and loss from exchange of non-monetary assets		
Gains or losses from discretionary investment or asset management	7,975,271.12	
Impairment provisions for assets due to force majeure factors such as natural disasters		
Gains or losses from debt restructuring		
Corporate restructuring fees such as staff resettlement expenses, consolidation charges, etc.		
Gains or losses arising from transactions at unfair trading prices over their fair value		
Net gains or losses from the subsidiary formed by merging jointly controlled enterprises from the beginning of the reporting period to the date of merger attributable to the current period		
Gains or losses from contingency items unrelated to the normal business operations of the Company		
Change in gains or losses generated from held for trading financial assets, change in fair value generated from trading financial liabilities, investment gains from disposal of trading financial assets and trading financial liabilities and financial assets available for sale, other than effective hedging activities associated with normal business operations of the Company		
Reversal of impairment provisions for receivables subject to individual impairment test	999,496.98	
Gains or losses from external entrusted loans		
Gains or losses from changes in fair value of investment properties adopting fair value method for follow-up measurements		
Effect on gains and losses for the current period from one-off adjustment to gains and losses for the period according to the requirements of the tax and accounting laws and regulations		
Discretionary fee income received from discretionary operations		
Other non-operating income and expenses apart from those stated above	137,177.00	
Other gains and losses items conforming with the definition of non-recurring gains or losses		
Sub-total	21,980,337.47	
Less: Effect on enterprise income tax increase/(decrease)	2,511,286.03	
Effect on interest of minority shareholders (after tax)	663,062.47	
Items of non-recurring gains or losses attributable to equity holders of the parent	18,805,988.97	

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

## 13. OTHER IMPORTANT MATTERS (continued)

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

#### 1. Details

Profit during the period	Weighted average return on net assets ratio%	Earnings per share (RMB/share)	
		Basic	Diluted
Net profit attributable to the holders of the Company's ordinary shares	2.21%	0.0414	0.0414
Net profit, after deduction of non-recurring gain and loss, attributable to the holders of the Company's ordinary shares	0.94%	0.0175	0.0175

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

Item	No.	Balance for the current period
Net profit attributable to ordinary shareholders of the Company	A	32,656,134.48
Non-recurring gain and loss	B	18,805,988.97
Net profit net of non-recurring gain and loss attributable to ordinary shareholders of the Company	C=A-B	13,850,145.51
Net assets at the beginning of the period attributable to ordinary shareholders of the Company	D	1,473,509,760.40
Additions to net assets as a result of an issue of shares, conversion of loans, etc. attributable to ordinary shareholders of the Company	E	
Number of months from the month after increase in assets to end of reporting period	F	
Decrease in net assets net of repurchase, bonus, etc. attributable to ordinary shareholders of the Company	G	31,585,785.50
Number of months from the month after decrease in assets to end of reporting period	H	5
Others		
Reclassification adjustment for net profit of loss included in other consolidated income	I1	
Number of months from the month after change in assets to end of reporting period	J1	
Net gain (loss) from financial assets available for sale	I2	
Number of months from the month after change in assets to end of reporting period	J2	
Foreign currency translation differences for financial statements	I3	
Number of months from the month after change in assets to end of reporting period	J3	
Number of months during the reporting period	K	12
Weighted average net assets	$L=D+A/2+E \times F/K-G \times H/$ $K \pm I \times J/K$	1,476,677,083.68
Weighted average return on net assets ratio	$M=A/L$	2.21%
Weighted average return on net assets ratio, after deduction of non-recurring gain and loss	$N=C/L$	0.94%

# NOTES TO THE FINANCIAL STATEMENTS

For the year 2017 | (RMB Yuan) | (English translation for reference only)

## 13. OTHER IMPORTANT MATTERS (continued)

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

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

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

Item	Number	Year of 2017
Net profits attributable to the ordinary shareholders of the Company	A	32,656,134.48
Non-recurring profit/loss	B	18,805,988.97
Net profits after deducting non-recurring profit/loss attributable to the ordinary shareholders of the Company	C=A-B	13,850,145.51
Total number of shares at beginning	D	315,857,855.00
Increase in number of shares due to transfer from reserves to capital or distribution of scrip dividend	E	473,786,782.00
Increase in number of shares due to issuance of new shares or convertibles	F	
Number of months calculated from the month after increase in shares to end of reporting period	G	
Decrease in number of shares due to repurchase	H	
Number of months calculated from the month after decrease in shares to end of reporting period	I	
Reduction in number of shares during the reporting period	J	
Number of months in the reporting period	K	12.00
Weighted average number of issued ordinary shares	$L=D+E+F \times G/K-H \times I/K-J$	789,644,637.00
Basic earnings per share	$M=A/L$	0.0414
Basic earnings per share after deducting non-recurring profit/loss	$N=C/L$	0.0175

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

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

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

“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
“BAIC Motor”	Beijing Automobile Group Company Limited
“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
“Changan Mazda”	Changan Mazda Automobile Company Limited
“Chery Auto”	Chery Automobile Co., Ltd.
“China Accounting Standards for Business Enterprises or Accounting Standards for Business Enterprises or CASBE”	Financial reporting standards and interpretations for business enterprises issued by the China Accounting Standards Committee of the China Ministry of Finance
“Company or Zhejiang Shibao”	Zhejiang Shibao Company Limited
“Corporate Governance Code or CG Code”	Corporate Governance Code and Corporate Governance Report, Appendix 14 to the Listing Rules of Hong Kong Stock Exchange
“CSRC”	China Securities Regulatory Committee
“Daimler Group”	Daimler AG
“Director(s)”	Director(s) of the Company
“Dongfeng Group”	Dongfeng Motor Company
“Erdos Sterling”	Erdos Sterling Steering System Co., Ltd., a wholly-owned subsidiary of Wuhu Sterling
“FAW Group”	FAW Group Corporation
“Geely Automobile”	Zhejiang Geely Holding Group Co., Ltd.
“Group”	The Company and its subsidiaries
“H Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued overseas and listed on Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars
“Hangzhou New Shibao”	Hangzhou New Shibao Electric Power Steering Co., Ltd., a subsidiary controlled by the Company
“Hangzhou Shibao”	Hangzhou Shibao Auto Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company



# GLOSSARY

*(English translation for reference only)*

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“JAC”	Anhui Jianghuai Automobile Group Co., Ltd.
“Jilin Shibao”	Jilin Shibao Machinery Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company
“King Long Motor”	Xiamen King Long Motor Group Co., Ltd.
“Listing Rules”	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules of Hong Kong Stock Exchange
“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 31 December 2017
“RMB”	Renminbi, the lawful currency of the PRC
“Saipa Automotive”	Iran Saipa Automotive Group
“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 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
“Zotye Automobile”	Zotye Automobile Co., Ltd.