



浙江世寶股份有限公司

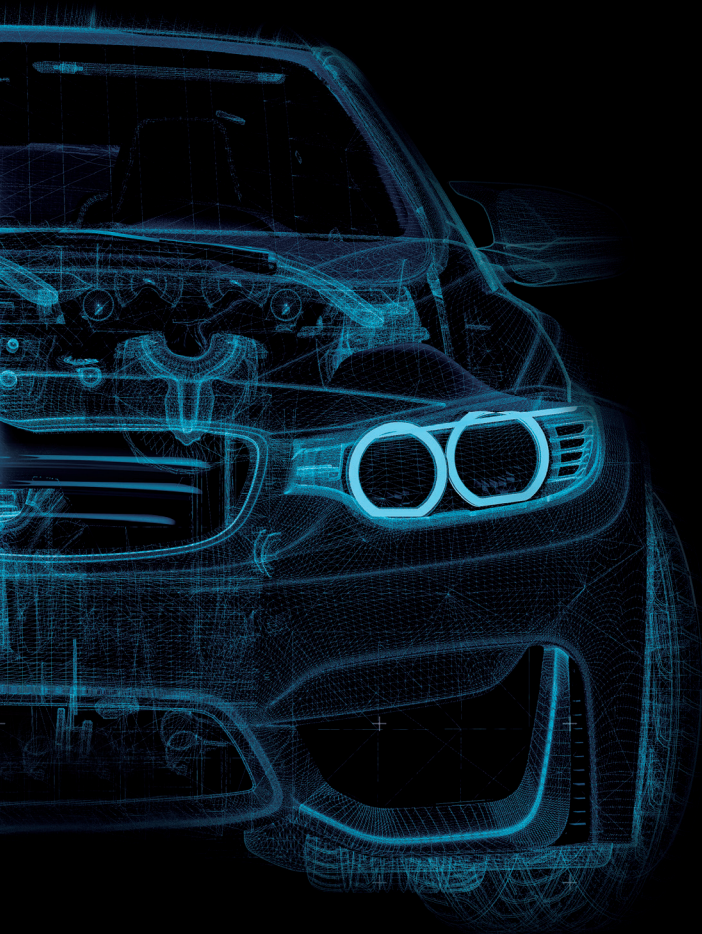
ZHEJIANG SHIBAO COMPANY LIMITED*

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

Stock Code : 1057

Steering the Future

Interim Report 2018



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CORPORATE INFORMATION

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

* For identification only

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

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Auditors

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CORPORATE INFORMATION

Contact Information

Corporate communication/Investor relations

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Place of Listing

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

Website

www.zjshibao.com

KEY ACCOUNTING INFORMATION AND FINANCIAL INDICATORS

	This Reporting Period RMB	Corresponding period of last year RMB	Change
Revenue	591,578,777.31	546,225,847.81	8.30%
Net profit attributable to shareholders of the listed company	-5,856,497.62	39,715,087.12	-114.75%
Net profit after non-recurring gains and losses attributable to shareholders of the listed company	-16,038,719.24	27,339,974.12	-158.66%
Net cash flows from operating activities	3,151,665.88	-15,285,387.86	-120.62%
Basic earnings per share (RMB/Share) (Note)	-0.0074	0.0503	-114.71%
Diluted earnings per share (RMB/Share) (Note)	-0.0074	0.0503	-114.71%
Weighted average return on net assets (%)	-0.40%	2.66%	-3.06%

	At the end of the Reporting Period RMB	At the end of last year RMB	Change
Total assets	2,158,586,796.95	2,104,424,460.90	2.57%
Net assets attributable to shareholders of the listed company	1,468,723,611.76	1,474,580,109.38	-0.40%

Note: The basic earnings per share and diluted earnings per share for the corresponding period of last year were based on the diluted share capital as at the end of last year.

UNAUDITED INTERIM FINANCIAL STATEMENTS

30 June 2018 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

The Board of the Company is pleased to announce the unaudited consolidated financial statements of the Company for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017. The accounting information contained in this interim report has not been audited but has been reviewed by the Audit Committee of the Company.

CONSOLIDATED BALANCE SHEET

30 June 2018

Item	Balance at the end of the period	Balance at the beginning of the period
Current Assets:		
Cash on hand and at bank	218,801,466.72	184,342,739.55
Notes receivable	143,322,051.34	114,302,216.24
Accounts receivable	472,049,148.24	512,761,243.71
Prepayments	8,098,544.41	7,004,776.38
Other receivables	9,458,711.92	6,468,067.86
Inventories	309,535,044.18	279,634,663.89
Other current assets	111,763,468.87	139,737,784.36
Total current assets	1,273,028,435.68	1,244,251,491.99
Non-current Assets:		
Fixed assets	591,745,300.34	592,681,978.24
Construction in progress	119,031,895.40	119,801,083.84
Intangible assets	94,373,849.42	97,344,007.19
Goodwill	4,694,482.34	4,694,482.34
Deferred income tax assets	3,067,674.14	3,302,768.13
Other non-current assets	72,645,159.63	42,348,649.17
Total non-current assets	885,558,361.27	860,172,968.91
Total Assets	2,158,586,796.95	2,104,424,460.90
Current Liabilities:		
Short-term borrowings	55,000,000.00	—
Notes payable	116,008,274.25	105,976,263.36
Accounts payable	402,362,056.52	391,592,296.47
Receipts in advance	2,437,807.20	3,382,424.14
Staff costs payable	13,307,754.90	15,671,079.38
Tax payable	2,134,491.45	8,252,072.77
Interests payable	1,056,187.54	882,136.11
Other payables	5,393,276.45	4,682,867.66
Other current liabilities	25,435,891.46	23,955,021.97
Total current liabilities	623,135,739.77	554,394,161.86
Non-current Liabilities:		
Long-term borrowings	11,080,000.00	11,080,000.00
Deferred income	42,510,006.08	46,477,939.98
Deferred income tax liabilities	3,281,706.91	3,456,833.99
Total non-current liabilities	56,871,712.99	61,014,773.97
Total liabilities	680,007,452.76	615,408,935.83

CONSOLIDATED BALANCE SHEET

30 June 2018 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Balance at the end of the period	Balance at the beginning of the period
Shareholders' Equity:		
Share capital	789,644,637.00	789,644,637.00
Capital reserve	185,250,172.21	185,250,172.21
Surplus reserve	134,912,363.87	134,912,363.87
Retained earnings	358,916,438.68	364,772,936.30
	<hr/>	<hr/>
Equity attributable to shareholders of the parent	1,468,723,611.76	1,474,580,109.38
	<hr/>	<hr/>
Minority interests	9,855,732.43	14,435,415.69
	<hr/>	<hr/>
Total shareholders' equity	1,478,579,344.19	1,489,015,525.07
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Total Liabilities and Shareholders' Equity	2,158,586,796.95	2,104,424,460.90
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BALANCE SHEET OF THE PARENT COMPANY

30 June 2018 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Balance at the end of the period	Balance at the beginning of the period
Current Assets:		
Cash on hand and at bank	85,687,561.10	18,725,136.03
Notes receivable	3,254,000.00	955,000.00
Accounts receivable	60,405,961.14	64,943,331.12
Prepayments	2,087,948.23	832,791.61
Other receivables	349,924,573.04	344,608,524.35
Inventories	6,975,220.56	7,958,985.85
Other current assets	42,727,781.70	110,209,765.05
Total current assets	551,063,045.77	548,233,534.01
Non-current Assets:		
Long-term receivables	298,000,000.00	298,000,000.00
Long-term equity investments	185,159,214.87	185,159,214.87
Fixed assets	11,770,416.41	11,208,135.99
Construction in progress	65,403,693.30	51,302,543.57
Intangible assets	35,145,113.24	35,581,319.24
Deferred income tax assets	73,244.75	73,244.75
Other non-current assets	29,305,360.20	12,035,125.00
Total non-current assets	624,857,042.77	593,359,583.42
Total Assets	1,175,920,088.54	1,141,593,117.43
Current Liabilities:		
Short-term borrowings	55,000,000.00	–
Notes payable	3,493,700.00	13,812,950.00
Accounts payable	8,475,361.34	16,707,274.83
Receipts in advance	500.00	1,500.00
Staff costs payable	1,162,735.76	1,026,207.01
Tax payable	899,172.34	643,667.78
Interests payable	158,333.34	–
Other payables	3,735,836.78	3,298,609.10
Other current liabilities	440,000.00	880,000.00
Total current liabilities	73,365,639.56	36,370,208.72
Total liabilities	73,365,639.56	36,370,208.72
Shareholders' Equity:		
Share capital	789,644,637.00	789,644,637.00
Capital reserve	187,767,058.72	187,767,058.72
Surplus reserve	73,909,386.83	73,909,386.83
Retained earnings	51,233,366.43	53,901,826.16
Total shareholders' equity	1,102,554,448.98	1,105,222,908.71
Total Liabilities and Shareholders' Equity	1,175,920,088.54	1,141,593,117.43

CONSOLIDATED INCOME STATEMENT

30 June 2018 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Total revenue	591,578,777.31	546,225,847.81
Including: Revenue	591,578,777.31	546,225,847.81
2. Total operating costs	611,441,289.73	512,077,547.08
Including: Operating costs	498,024,626.88	430,712,361.43
Business taxes and surcharges	4,901,519.39	4,104,919.05
Selling expenses	40,528,863.33	28,443,663.40
General and administrative expenses	67,817,744.24	50,639,675.06
Financial expenses	-331,266.86	100,769.12
Assets impairment losses	499,802.75	-1,923,840.98
Add: Investment gains	2,436,590.84	4,726,634.21
Gains on disposal of assets ("-" as loss)	113,907.91	-579,416.53
Other gains	7,071,722.79	7,606,532.29
3. Operating profit ("-" as loss)	-10,240,290.88	45,902,050.70
Add: Non-operating income	567,420.78	26,072.59
Less: Non-operating expenses	414,554.01	122,050.04
4. Total profit ("-" as total loss)	-10,087,424.11	45,806,073.25
Less: Income tax expenses	348,756.77	5,517,288.35
5. Net profit ("-" as net loss)	-10,436,180.88	40,288,784.90
Net profit attributable to shareholders of the parent	-5,856,497.62	39,715,087.12
Minority interests	-4,579,683.26	573,697.78
6. Other comprehensive income, net of tax	-	-
7. Total comprehensive income	-10,436,180.88	40,288,784.90
Total comprehensive income attributable to shareholders of the parent	-5,856,497.62	39,715,087.12
Total comprehensive income attributable to minority shareholders	-4,579,683.26	573,697.78
8. Earnings per share:		
(1) Basic earnings per share	-0.0074	0.0503
(2) Diluted earnings per share	-0.0074	0.0503

INCOME STATEMENT OF THE PARENT COMPANY

30 June 2018 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Revenue	23,505,339.16	25,368,044.51
Less: Operating costs	19,053,913.35	21,312,468.14
Business taxes and surcharges	214,288.00	823,020.89
Selling expenses	220,784.07	201,709.04
General and administrative expenses	10,739,243.14	4,691,298.74
Financial expenses	-1,739,137.93	-1,732,327.58
Add: Investment gains	2,287,030.23	41,849,167.12
2. Operating profit (“-” as loss)	-2,696,721.24	41,921,042.40
Add: Non-operating income	20,741.81	-
Less: Non-operating expenses	1,160.00	3,550.00
3. Total profit (“-” as total loss)	-2,677,139.43	41,917,492.40
Less: Income tax expenses	-8,679.70	500,839.67
4. Net profit (“-” as net loss)	-2,668,459.73	41,416,652.73
5. Other comprehensive income, net of tax	-	-
6. Total comprehensive income	-2,668,459.73	41,416,652.73

CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2018 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	330,806,018.25	259,376,885.26
Return of taxes and levies	2,781,398.32	6,938,724.30
Cash received relating to other operating activities	13,139,810.07	11,179,458.41
Sub-total of cash inflow	346,727,226.64	277,495,067.97
Cash paid for purchase of goods and acceptance of services	177,019,507.47	136,442,862.31
Cash paid to and on behalf of employees	86,585,084.04	84,146,095.95
Payment of taxes and levies	22,062,747.40	30,314,340.68
Cash paid relating to other operating activities	57,908,221.85	41,877,156.89
Sub-total of cash outflow	343,575,560.76	292,780,455.83
Net cash flows from operating activities	3,151,665.88	-15,285,387.86
2. Cash flows from investing activities:		
Cash received from return of investments	227,000,000.00	1,011,600,000.00
Cash received from investment gains	2,582,786.30	4,726,634.21
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	2,338,723.74	782,570.49
Cash received relating to other investing activities	629,200.00	978,400.00
Sub-total of cash inflow	232,550,710.04	1,018,087,604.70
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	62,281,326.16	46,363,001.21
Cash paid for investments	200,000,000.00	917,000,000.00
Sub-total of cash outflow	262,281,326.16	963,363,001.21
Net cash flows from investing activities	-29,730,616.12	54,724,603.49
3. Cash flows from financing activities:		
Cash received from borrowings	200,000,000.00	132,000,000.00
Sub-total of cash inflow	200,000,000.00	132,000,000.00
Cash paid for debt repayments	145,000,000.00	130,000,000.00
Cash paid for distribution of dividend and profit or payment of interest expenses	1,449,162.62	393,389.33
Cash paid relating to other financing activities	273,611.95	646,649.52
Sub-total of cash outflow	146,722,774.57	131,040,038.85
Net cash flows from financing activities	53,277,225.43	959,961.15
4. Effect of changes in foreign exchange rate on cash and cash equivalents	-5,038.92	2,037.96
5. Net increase in cash and cash equivalents	26,693,236.27	40,401,214.74
Add: Opening balance of cash and cash equivalents	160,425,712.97	117,330,581.92
6. Closing balance of cash and cash equivalents	187,118,949.24	157,731,796.66

STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

30 June 2018 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	31,550,835.77	21,138,514.15
Cash received relating to other operating activities	7,193,962.39	3,918,218.40
Sub-total of cash inflow	38,744,798.16	25,056,732.55
Cash paid for purchase of goods and acceptance of services	23,661,471.46	14,176,117.10
Cash paid to and on behalf of employees	7,318,384.55	4,780,492.65
Payment of taxes and levies	1,013,039.98	3,167,960.48
Cash paid relating to other operating activities	25,218,291.30	25,636,018.18
Sub-total of cash outflow	57,211,187.29	47,760,588.41
Net cash flows from operating activities	-18,466,389.13	-22,703,855.86
2. Cash flows from investing activities:		
Cash received from return of investments	220,000,000.00	260,000,000.00
Cash received from investment gains	2,424,252.05	41,849,167.12
Cash received relating to other investing activities	70,000,000.00	70,000,000.00
Sub-total of cash inflow	292,424,252.05	371,849,167.12
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	39,747,356.17	5,472,599.03
Cash paid for investments	150,000,000.00	250,000,000.00
Cash paid relating to other investing activities	70,000,000.00	70,000,000.00
Sub-total of cash outflow	259,747,356.17	325,472,599.03
Net cash flows from investing activities	32,676,895.88	46,376,568.09
3. Cash flows from financing activities:		
Cash received from borrowings	160,000,000.00	130,000,000.00
Sub-total of cash inflow	160,000,000.00	130,000,000.00
Cash paid for debt repayments	105,000,000.00	130,000,000.00
Cash paid for distribution of dividend and profit or payment of interest expenses	294,034.73	218,780.84
Cash paid relating to other financing activities	273,611.95	646,649.52
Sub-total of cash outflow	105,567,646.68	130,865,430.36
Net cash flows from financing activities	54,432,353.32	-865,430.36
4. Effect of changes in foreign exchange rate on cash and cash equivalents	-	-
5. Net increase in cash and cash equivalents	68,642,860.07	22,807,281.87
Add: Opening balance of cash and cash equivalents	16,695,331.03	11,148,732.88
6. Closing balance of cash and cash equivalents	85,338,191.10	33,956,014.75

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2018 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Current Period					Total shareholders' equity
	Attributable to shareholders of the parent					
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Minority interests	
1. Balance at the end of last year	789,644,637.00	185,250,172.21	134,912,363.87	364,772,936.30	14,435,415.69	1,489,015,525.07
2. Balance at the beginning of year	789,644,637.00	185,250,172.21	134,912,363.87	364,772,936.30	14,435,415.69	1,489,015,525.07
3. Increase/decrease during the period ("-" as decrease)	—	—	—	-5,856,497.62	-4,579,683.26	-10,436,180.88
(1) Total comprehensive income	—	—	—	-5,856,497.62	-4,579,683.26	-10,436,180.88
4. Balance at the end of the period	789,644,637.00	185,250,172.21	134,912,363.87	358,916,438.68	9,855,732.43	1,478,579,344.19

Item	Last Period					Total shareholders' equity
	Attributable to shareholders 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/decrease during the period ("-" as decrease)	—	—	—	8,129,301.62	573,697.78	8,702,999.40
(1) Total comprehensive income	—	—	—	39,715,087.12	573,697.78	40,288,784.90
(2) Appropriation of profits	—	—	—	-31,585,785.50	—	-31,585,785.50
1. Distribution to shareholders	—	—	—	-31,585,785.50	—	-31,585,785.50
4. Balance at the end of the period	315,857,855.00	659,036,954.21	130,760,053.19	375,984,199.62	20,931,444.68	1,502,570,506.70

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

30 June 2018 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Current period				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	789,644,637.00	187,767,058.72	73,909,386.83	53,901,826.16	1,105,222,908.71
2. Balance at the beginning of year	789,644,637.00	187,767,058.72	73,909,386.83	53,901,826.16	1,105,222,908.71
3. Increase/decrease during the period ("-" as decrease)	—	—	—	-2,668,459.73	-2,668,459.73
(1) Total comprehensive income	—	—	—	-2,668,459.73	-2,668,459.73
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>51,233,366.43</u>	<u>1,102,554,448.98</u>

Item	Current period				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	315,857,855.00	661,553,840.72	69,757,076.15	48,116,815.50	1,095,285,587.37
2. Balance at the beginning of year	315,857,855.00	661,553,840.72	69,757,076.15	48,116,815.50	1,095,285,587.37
3. Increase/decrease during the period ("-" as decrease)	—	—	—	9,830,867.23	9,830,867.23
(1) Total comprehensive income	—	—	—	41,416,652.73	41,416,652.73
(2) Appropriation to profits	—	—	—	-31,585,785.50	-31,585,785.50
1. Distribution to shareholders	—	—	—	-31,585,785.50	-31,585,785.50
4. Balance at the end of year	<u>315,857,855.00</u>	<u>661,553,840.72</u>	<u>69,757,076.15</u>	<u>57,947,682.73</u>	<u>1,105,116,454.60</u>

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

1. GENERAL

Zhejiang Shibao Company Limited (hereafter referred to as the “Company”) is a joint stock limited company approved by the document (ZHE SHANG SHI [2004] 37) (浙上市[2004]37號) issued by the Listing Affair Team (上市工作領導小組) of the People’s Government of Zhejiang Province. The Company was established by ways of promotion jointly by Zhejiang Shibao Holding Group Co., Ltd., Wu Wei Xu (吳偉旭), Wu Lang Yue (吳琅躍), Du Chun Mao (杜春茂) and Chen Wen Hong (陳文洪) on the basis of Zhejiang Shibao Steering Gear Co., Ltd.. The Company was registered and incorporated with Zhejiang Administration for Industry & Commerce on 30 April 2004. Currently, it holds the business licence with a creditability code (913300001476445210) issued by the Zhejiang Administration Bureau of Industry and Commerce and has share capital of 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 2nd meeting of the sixth session of the Board of the Company on 17 August 2018.

The Company has included 7 subsidiaries in the consolidated financial statements for This Period, i.e. Hangzhou Shibao, Hangzhou New Shibao, Jilin Shibao, Siping Steering, Beijing Autonics, Wuhu Sterling and Erdos Sterling. Details refer to the note to the financial statements “Owner’s equity in other entities”.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of Preparation

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

(2) Evaluation on Ability of Continuing Operation

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

NOTES TO THE FINANCIAL STATEMENTS

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3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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

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

(2) Accounting Year

The accounting year is from 1 January to 31 December.

(3) Operating Cycle

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

(4) Functional Currency

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

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

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

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

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

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

(6) Preparation Basis of Consolidated Financial Statements

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

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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 other comprehensive income.

(9) Financial Instruments

1. Classification of financial assets and financial liabilities

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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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

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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

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

(9) Financial Instruments *(continued)*

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

(3) 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

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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.

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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.

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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.

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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

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

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

2. Determination of investment cost

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

2. Determination of investment cost *(continued)*

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

3. Subsequent measurement and recognition

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

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

(1) Separate financial statements

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

(2) Consolidated financial statements

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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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

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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 and with uncertain service life, 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

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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 loss 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

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

(19) Employee Benefits *(continued)*

4. Accounting treatment of dismissal benefits

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

5. Accounting treatment of other long-term benefits

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

(20) Provision for Liability

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

(21) Revenue

1. Recognition of revenue

(1) Sales of goods

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

(2) Rendering of services

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

NOTES TO THE FINANCIAL STATEMENTS

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

(21) Revenue *(continued)*

1. Recognition of revenue *(continued)*

(3) Transfer of assets use rights

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

2. Methods of revenue recognition

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

(22) Government Grant

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

The government subsidies obtained by the Company to purchase or construct long-term assets or otherwise are government subsidies pertinent to assets. Government 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.

NOTES TO THE FINANCIAL STATEMENTS

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

(23) Deferred Income Tax Assets and Deferred Income Tax Liabilities

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

(24) Operating 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.

NOTES TO THE FINANCIAL STATEMENTS

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

(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.

(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 Income Tax Assets and Deferred Income 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.

NOTES TO THE FINANCIAL STATEMENTS

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3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(27) Significant Accounting Judgments and Estimates (continued)

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 Partial 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 and with uncertain service life, whether there is evidence of impairment or not, impairment test is conducted annually. Impairment test is performed on goodwill together with its relevant asset group or asset group combination. The result of the measurement of the recoverable amounts shows that, if the recoverable amount of the long-term asset is lower than its carrying amount, the carrying amount of the asset is written down to the recoverable amount. The amount written down is recognized as impairment loss through profit or loss and is provided for the corresponding asset impairment.

4. TAXATION

(1) Major Taxes and Tax Rates

Type of tax	Basis	Tax rate
Value added tax (Note)	Sales of goods or rendering of taxable services	17%, 16%, 11%, 10%, 6%
Property tax	On property value less 30%, or on rents	1.2%, 12%
Urban maintenance and construction tax	Amount of payable turnover tax	7%, 5%
Education surcharge	Amount of payable turnover tax	3%
Local education surcharge	Amount of payable turnover tax	2%
Corporate income tax	Amount of taxable profit	15%, 25%

(Note 1): Hangzhou Shibao, Jilin Shibao, subsidiaries of the Company, enjoys the policy of "exempt, credit, refund" with an export tax refund rate of 17%.

(Note 2): According to Cai Shui [2018] No. 32, since 1 May 2018, the previous VAT rates of 17% and 11% applicable to any taxpayer's VAT taxable sale or import of goods, respectively, shall be adjusted to 16% and 10%, respectively.

Details of income tax rates:

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

NOTES TO THE FINANCIAL STATEMENTS

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4. TAXATION (continued)

(2) Tax concession and approval documents

1. According to the “Letter Regarding 2017 First 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 State Taxation Bureau and Anhui Provincial 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	96,711.03	309,027.11
Bank deposits	187,022,238.21	160,116,685.86
Other monetary funds	31,682,517.48	23,917,026.58
Total	218,801,466.72	184,342,739.55

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

Other monetary funds at the end of the period represents the security deposits of RMB31,682,517.48 for the issuance of the bank acceptance bills.

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

2. Notes receivable

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	143,322,051.34	114,302,216.24
Total	143,322,051.34	114,302,216.24

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

Item	Pledged amount at the end of the period
Bank acceptance bills (Note)	61,592,692.68
Sub-Total	61,592,692.68

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

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

Item	Amounts derecognized at the end of the period	Amounts not yet derecognized at the end of the period
Bank acceptance bills	392,520,838.85	—
Sub-total	392,520,838.85	—

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

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Accounts receivable

(1) Breakdown

1) Breakdown by types

Type	Balance at the end of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	441,425,020.17	92.62	—	—	441,425,020.17
Individually insignificant but significant based on credit risk characteristics	7,943,049.66	1.67	4,540,106.95	57.16	3,402,942.71
Individually insignificant amount with bad debt provision on individual basis	27,221,185.36	5.71	—	—	27,221,185.36
Total	476,589,255.19	100.00	4,540,106.95	0.95	472,049,148.24

Type	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	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
Total	518,606,447.63	100.00	5,845,203.92	1.13	512,761,243.71

2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for bad debts	Provision for bad debts	Carrying amount	Provision for bad debts	Provision for bad debts
Within 1 year	464,406,208.68	97.44	—	508,867,443.02	98.12	—
1–2 years	7,039,406.14	1.48	194,875.21	3,162,471.75	0.61	127,504.36
2–3 years	1,068,437.15	0.22	271,785.10	2,228,700.00	0.43	1,886,522.94
Over 3 years	4,075,203.22	0.86	4,073,446.64	4,347,832.86	0.84	3,831,176.62
Sub-total	476,589,255.19	100.00	4,540,106.95	518,606,447.63	100.00	5,845,203.92

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

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

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Accounts receivable (continued)

(1) Breakdown (continued)

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

Description	Carrying amount	Provision for bad debts	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	441,425,020.17	—	—	Individual impairment test showed no risk was expected of balance recover
Sub-total	441,425,020.17	—	—	

4) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	7,943,049.66	57.16	4,540,106.95
Sub-total	7,943,049.66	57.16	4,540,106.95

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 Beijing Electric Vehicle Co., Ltd. (北京新能源汽車股份有限公司) and others	27,221,185.36	—	—	Individual impairment test showed no risk was expected of balance recover
Sub-total	27,221,185.36	—	—	

(2) There was no provision for bad debt in This Period. Provisions for bad debt reversed correspondingly from recovered accounts receivable for This Period amounted to RMB1,305,096.97.

Among which, significant amounts of recovered or reversed provisions for bad debt for This Period are as follows:

Name	Recovered or reversed amount	Method of recover
Yunnan Lifan Junma Auto Co., Ltd. (雲南力帆駿馬車輛有限公司)	1,202,003.00	Monetary funds
Sub-total	1,202,003.00	

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

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Accounts receivable (continued)

(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)	101,207,135.28	21.24	—
Chery Automobile Co., Ltd. (奇瑞汽車股份有限公司)	23,601,674.91	4.95	—
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	23,390,697.69	4.91	—
Anhui Jianghuai Automobile Group Corp., Ltd. (安徽江淮汽車集團股份有限公司)	22,763,170.77	4.78	—
FAW Jiefang Automobile Co., Ltd. (一汽解放汽車有限公司)	21,736,706.83	4.56	—
Sub-total	192,699,385.48	40.44	—

4. Prepayments

(1) Aging analysis

Ageing	Balance at the end of the period		Balance at the beginning of the period	
	Carrying amount	(%)	Carrying amount	(%)
Within 1 year	6,791,508.60	83.86	6,108,926.57	87.21
1-2 years	1,307,035.81	16.14	895,849.81	12.79
Total	8,098,544.41	100.00	7,004,776.38	100.00

(2) The five largest prepayments

Name	Carrying amount	Percentage of the total prepayments carrying amount (%)
Hangzhou Wukang Metal Materials Co., Ltd. (杭州武康金屬材料有限公司)	604,326.69	7.46
Beijing Vertex Electronics Technology Co., Ltd. (北京沃泰克斯電子技術有限公司)	555,846.00	6.86
Jinhua Bolang Electrical and Mechanical Equipment Co., Ltd. (金華市博朗機電設備有限公司)	443,500.00	5.48
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)	308,163.09	3.81
Hangzhou Yuanwei Machinery Manufacture Co., Ltd. (杭州遠威機械製造有限公司)	264,710.20	3.27
Sub-total	2,176,545.98	26.88

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

5. Other receivables

(1) Breakdown

1) Breakdown by types

Type	Balance at the end of the period		Provision for bad debts		Book value
	Carrying amount Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	4,912,930.74	51.27	—	—	4,912,930.74
Individually insignificant but significant based on credit risk characteristics	693,519.58	7.24	124,237.64	17.91	569,281.94
Individually insignificant amount with bad debt provision on individual basis	3,976,499.24	41.49	—	—	3,976,499.24
Total	9,582,949.56	100.00	124,237.64	1.30	9,458,711.92

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

2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount Amount	Provision for bad debts (%)	Provision for bad debts	Carrying amount Amount	Provision for bad debts (%)	Provision for bad debts
Within 1 year	5,664,189.98	59.11	—	2,649,979.98	40.20	—
1-2 years	3,601,471.07	37.58	—	3,679,510.65	55.81	100,000.00
2-3 years	151,882.20	1.58	100,000.00	3,361.31	0.05	—
Over 3 years	165,406.31	1.73	24,237.64	259,453.56	3.94	24,237.64
Sub-total	9,582,949.56	100.00	124,237.64	6,592,305.50	100.00	124,237.64

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

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Jilin Tiedong Economic Development Zone Administrative Committee and others	4,912,930.74	—	—	Individual impairment test showed no risk was expected of balance recover
Sub-total	4,912,930.74	—	—	

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

5. Other receivables (continued)

(1) Breakdown (continued)

4) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	693,519.58	17.91	124,237.64
Sub-total	<u>693,519.58</u>	<u>17.91</u>	<u>124,237.64</u>

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

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Other receivables of individual imprest, provisional borrowings and others	3,976,499.24	—	—	Individual impairment test showed no risk was expected of balance recover
Sub-total	<u>3,976,499.24</u>	<u>—</u>	<u>—</u>	

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

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

(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	911,011.50	433,251.50
Export tax refund receivable	1,687,690.74	—
Provisional borrowings	3,390,240.00	3,325,240.00
Imprest	2,947,790.94	1,544,867.21
Others	646,216.38	1,288,946.79
Sub-total	<u>9,582,949.56</u>	<u>6,592,305.50</u>

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

5. Other receivables (continued)

(5) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Ageing	Percentage of other receivables carrying amount (%)	Provision for bad debts
Siping Tiedong Economic Development Zone Administrative Committee (四平市鐵東經濟開發區管理委員會)	Imprest	3,225,240.00	1-2 years	33.66	—
Export tax refund receivable	Refund of export tax	1,687,690.74	Within 1 year	17.61	—
Engineering Projects Quality Supervision and Inspection Office of Siping (四平市建築工程質量監督檢驗站)	Security deposits	426,700.00	Within 1 year	4.45	—
Yang Jianghui (楊江輝)	Imprest	393,000.00	1-2 years	4.10	—
Li Nan (李楠)	Imprest	276,964.41	Within 1 year	2.89	—
Sub-total		6,009,595.15		62.71	—

6. Inventories

(1) Breakdown

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Raw materials	99,665,758.46	—	99,665,758.46	83,960,743.50	—	83,960,743.50
Work-in-progress	19,597,395.54	—	19,597,395.54	29,858,864.15	—	29,858,864.15
Finished goods	187,938,113.11	2,053,311.84	185,884,801.27	163,168,376.42	1,247,992.90	161,920,383.52
Low-value consumables	4,387,088.91	—	4,387,088.91	3,894,672.72	—	3,894,672.72
Total	311,588,356.02	2,053,311.84	309,535,044.18	280,882,656.79	1,247,992.90	279,634,663.89

(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	
Finished goods	1,247,992.90	1,804,899.72	—	999,580.78	2,053,311.84
Sub-total	1,247,992.90	1,804,899.72	—	999,580.78	2,053,311.84

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

6. Inventories (continued)

(2) Provision (continued)

- 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	0.53

7. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Bank short-term wealth management products	103,000,000.00	130,000,000.00
Value added tax input tax recoverable	7,652,657.65	9,071,136.80
Prepaid expenses	1,033,435.02	639,679.36
Prepaid corporate income tax	77,376.20	26,968.20
Total	<u>111,763,468.87</u>	<u>139,737,784.36</u>

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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	289,772,074.73	660,927,552.76	20,606,714.81	23,681,846.74	994,988,189.04
Increase during the period	1,350,034.77	31,489,364.61	359,355.56	1,693,110.19	34,891,865.13
1) Purchase	119,043.97	1,507,354.73	351,941.52	1,574,024.71	3,552,364.93
2) Transfer from construction in progress	1,230,990.80	29,982,009.88	7,414.04	119,085.48	31,339,500.20
Decrease during the period	—	3,798,496.65	234,598.40	—	4,033,095.05
1) Disposal	—	3,798,496.65	234,598.40	—	4,033,095.05
Balance at the end of the period	<u>291,122,109.50</u>	<u>688,618,420.72</u>	<u>20,731,471.97</u>	<u>25,374,956.93</u>	<u>1,025,846,959.12</u>
Accumulated depreciation					
Balance at the beginning of the period	60,688,562.13	313,044,995.45	12,576,435.50	14,924,975.72	401,234,968.80
Increase during the period	3,903,343.70	28,164,081.37	1,069,442.14	728,354.13	33,865,221.34
1) Provision	3,903,343.70	28,164,081.37	1,069,442.14	728,354.13	33,865,221.34
Decrease during the period	—	1,846,904.88	222,868.48	—	2,069,773.36
1) Disposal	—	1,846,904.88	222,868.48	—	2,069,773.36
Balance at the end of the period	<u>64,591,905.83</u>	<u>339,362,171.94</u>	<u>13,423,009.16</u>	<u>15,653,329.85</u>	<u>433,030,416.78</u>
Provision					
Balance at the beginning of the period	825,717.39	245,524.61	—	—	1,071,242.00
Increase during the period	—	—	—	—	—
1) Provision	—	—	—	—	—
Decrease during the period	—	—	—	—	—
1) Disposal	—	—	—	—	—
Balance at the end of the period	<u>825,717.39</u>	<u>245,524.61</u>	<u>—</u>	<u>—</u>	<u>1,071,242.00</u>
Book value					
Book value at the end of the period	<u>225,704,486.28</u>	<u>349,010,724.17</u>	<u>7,308,462.81</u>	<u>9,721,627.08</u>	<u>591,745,300.34</u>
Book value at the beginning of the period	<u>228,257,795.21</u>	<u>347,637,032.70</u>	<u>8,030,279.31</u>	<u>8,756,871.02</u>	<u>592,681,978.24</u>

(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	<u>24,324,886.64</u>	Still under process
Sub-total	<u>24,324,886.64</u>	

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

9. Construction in progress

(1) Breakdown

Project name	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
The precious casting and processing of automotive components project	5,250,594.48	—	5,250,594.48	5,406,894.48	—	5,406,894.48
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	64,148,463.95	—	64,148,463.95	51,302,543.57	—	51,302,543.57
The New Shibao new plant (phase 2) project	17,380,948.78	—	17,380,948.78	15,245,982.94	—	15,245,982.94
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	10,685,469.65	—	10,685,469.65	9,939,147.41	—	9,939,147.41
The research and development centre of automotive intelligent technology project	579,023.63	—	579,023.63	401,757.00	—	401,757.00
Other sundry projects	20,987,394.91	—	20,987,394.91	37,504,758.44	—	37,504,758.44
Total	119,031,895.40	—	119,031,895.40	119,801,083.84	—	119,801,083.84

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

Project name	Budget	Balance at the beginning of the period	Increase during the period	Transfer to fixed assets	Other decrease	Percentage of invested amount to budget (%)
The precious casting and processing of automotive components project	235,364,100.00	5,406,894.48	115,829.06	272,129.06	—	27.10
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	360,671,000.00	51,302,543.57	12,845,920.38	—	—	17.79
The New Shibao new plant (phase 2) project	26,000,000.00	15,245,982.94	2,134,965.84	—	—	66.85
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	811,416,700.00	9,939,147.41	5,301,307.72	4,554,985.48	—	2.66
The research and development centre of automotive intelligent technology project	150,025,600.00	401,757.00	177,266.63	—	—	0.39
Other sundry projects	—	37,504,758.44	9,995,022.13	26,512,385.66	—	—
Total	1,583,477,400.00	119,801,083.84	30,570,311.76	31,339,500.20	—	—

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 Fund raising	5,250,594.48
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	22.00	—	—	—	Internal fund Fund raising	64,148,463.95
The New Shibao new plant (phase 2) project	70.00	—	—	—	Internal fund	17,380,948.78
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	3.00	—	—	—	Internal fund	10,685,469.65
The research and development centre of automotive intelligent technology project	0.40	—	—	—	Internal fund	579,023.63
Other sundry projects	—	—	—	—	Internal fund	20,987,394.91
Total		—	—	—		119,031,895.40

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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	4,891,085.64	160,063,741.86
Increase during the period	—	—	—	731,292.36	731,292.36
1) Purchase	—	—	—	731,292.36	731,292.36
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>5,622,378.00</u>	<u>160,795,034.22</u>
Accumulated amortization					
Balance at the beginning of the period	19,267,066.01	918,530.63	39,389,558.14	3,144,579.89	62,719,734.67
Increase during the period	1,066,790.31	64,083.30	2,241,237.06	329,339.46	3,701,450.13
1) Provision	1,066,790.31	64,083.30	2,241,237.06	329,339.46	3,701,450.13
Decrease during the period	—	—	—	—	—
1) Disposal	—	—	—	—	—
Balance at the end of the period	<u>20,333,856.32</u>	<u>982,613.93</u>	<u>41,630,795.20</u>	<u>3,473,919.35</u>	<u>66,421,184.80</u>
Book value					
Book value at the end of the period	<u>84,860,761.11</u>	<u>299,052.74</u>	<u>7,065,576.92</u>	<u>2,148,458.65</u>	<u>94,373,849.42</u>
Book value at the beginning 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>

(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	84,860,761.11	85,927,551.42
including: interim lease	84,860,761.11	85,927,551.42
Sub-total	84,860,761.11	85,927,551.42

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

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

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

12. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets which are not offset

Item	Balance as at the end of the period		Balance as at the beginning of the period	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	5,583,361.68	1,065,847.38	6,402,485.18	1,188,715.89
Profits not realized from intra-group transactions	2,593,325.13	436,183.14	3,511,963.45	670,480.12
Accrued warranty expenses	9,211,775.95	1,565,643.62	8,723,489.97	1,443,572.12
Total	17,388,462.76	3,067,674.14	18,637,938.60	3,302,768.13

(2) Deferred income tax liabilities which are not offset

Item	Balance as at the end of the period		Balance as at the beginning of the period	
	Deductible temporary differences	Deferred income tax liabilities	Deductible temporary differences	Deferred income tax liabilities
Asset valuation surplus arising from business combination not under the common control (Note)	13,126,827.68	3,281,706.91	13,827,335.96	3,456,833.99
Total	13,126,827.68	3,281,706.91	13,827,335.96	3,456,833.99

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

(Note): There are taxable temporary differences arising from fair value adjustment on various identifiable assets and liabilities in acquiring Wuhu Sterling through business combination not under the common control in stages during 2013. The balance as at the beginning of 2018 was RMB11,648,502.46. During the period, taxable temporary differences of the reversal of fair value amortization was RMB316,008.30. As at 30 June 2018, the taxable temporary differences arising from such fair value adjustment amounted to RMB11,332,494.16.

In previous years, there were taxable temporary differences arising from fair value adjustment in various identifiable assets and liabilities in acquiring Beijing Autonics through business combination not under the common control. Its balance as at the beginning of 2018 was RMB2,178,833.50. During the period, taxable temporary differences of the reversal of fair value amortization was RMB384,499.98. As at 30 June 2018, the taxable temporary differences arising from such fair value adjustment amounted to RMB1,794,333.52.

(3) Analysis of unrecognized deferred income tax assets

Item	Balance as at the end of the period	Balance as at the beginning of the period
Provision for decline in price of inventories	1,010,057.11	690,711.64
Deductible losses	80,408,756.84	62,041,038.60

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

Year	Balance as at the end of the period	Balance as at the beginning of the period	Note
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	7,338,909.91	
2022	14,439,264.96	14,439,264.96	
2023	18,367,718.24	—	
Sub-total	80,408,756.84	62,041,038.60	

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	66,025,159.63	35,728,649.17
Deposit to fulfill the contract	6,620,000.00	6,620,000.00
Total	72,645,159.63	42,348,649.17

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

14. Short-term borrowings

Type	Balance at the end of the period	Balance at the beginning of the period
Guaranteed loans	55,000,000.00	—
Total	55,000,000.00	—

The annual interest rate of the above short-term loans are 4.785%-5.22%.

15. Notes payable

(1) Breakdown

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	116,008,274.25	105,976,263.36
Total	116,008,274.25	105,976,263.36

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

16. Accounts payable

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Operating purchase payable	382,552,839.92	366,378,596.73
Long-term assets purchase payable	19,809,216.60	25,213,699.74
Total	402,362,056.52	391,592,296.47

(2) Aging analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	383,794,528.85	379,869,070.23
1-2 years	11,181,099.82	8,982,445.81
2-3 years	2,836,387.10	572,171.65
Over 3 years	4,550,040.75	2,168,608.78
Total	402,362,056.52	391,592,296.47

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

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

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

17. Receipts in advance

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Receipts in advance from sales of goods	2,437,807.20	3,382,424.14
Total	2,437,807.20	3,382,424.14

(2) Aging analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	2,004,535.29	3,266,174.65
1-2 years	433,271.91	116,249.49
Total	2,437,807.20	3,382,424.14

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

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

18. Staff costs payable

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Short-term remuneration	14,556,238.36	77,049,556.31	78,876,985.24	12,728,809.43
Post-employment benefits – established withdrawal and deposit plan	1,114,841.02	7,172,203.25	7,708,098.80	578,945.47
Total	<u>15,671,079.38</u>	<u>84,221,759.56</u>	<u>86,585,084.04</u>	<u>13,307,754.90</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	13,326,669.24	65,509,243.68	67,245,744.03	11,590,168.89
Staff welfare	—	4,327,903.02	4,327,903.02	—
Social insurance	975,009.03	4,804,940.68	5,316,547.62	463,402.09
Including:				
Medical insurance	870,555.97	4,138,688.18	4,602,956.08	406,288.07
Work injury insurance	29,376.15	243,875.48	259,668.85	13,582.78
Maternity insurance	75,076.91	422,377.02	453,922.69	43,531.24
Housing funds	10,501.00	943,808.00	942,765.00	11,544.00
Labour union funds and employee education funds	244,059.09	923,596.64	503,961.28	663,694.45
Non-monetary benefits (Note)	—	540,064.29	540,064.29	—
Sub-total	<u>14,556,238.36</u>	<u>77,049,556.31</u>	<u>78,876,985.24</u>	<u>12,728,809.43</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 RMB540,064.29.

(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	1,075,609.88	6,922,933.83	7,447,401.88	551,141.83
Unemployment insurance	39,231.14	249,269.42	260,696.92	27,803.64
Sub-total	<u>1,114,841.02</u>	<u>7,172,203.25</u>	<u>7,708,098.80</u>	<u>578,945.47</u>

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

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

19. Taxes payable

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax	410,716.57	4,713,102.33
Corporate income tax	272,032.92	919,522.51
Withhold of individual income tax	1,192,554.00	409,429.01
Urban maintenance and construction tax	52,375.07	452,983.26
Real estate tax	46,352.23	815,904.32
Urban land use tax	61,122.93	—
Others	99,337.73	941,131.34
Total	2,134,491.45	8,252,072.77

20. 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	1,056,187.54	882,136.11
Total	1,056,187.54	882,136.11

21. Other payables

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Payable of temporary receipts	1,329,031.99	—
Security deposits	3,542,598.58	3,799,521.26
Labour service company management fees	284,902.21	159,965.22
Others	236,743.67	723,381.18
Total	5,393,276.45	4,682,867.66

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

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

22. 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)	8,912,045.63	8,770,934.52
Accrued expenses	16,523,845.83	15,184,087.45
Total	25,435,891.46	23,955,021.97

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

23. 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 (Note 1)	280,000.00	280,000.00
Long-term loans (Note 2)	8,800,000.00	8,800,000.00
Guaranteed loans (Note 3)	2,000,000.00	2,000,000.00
Total	11,080,000.00	11,080,000.00

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

(Note 2): These loans were provided by Jilin Tiedong Economic Development Zone Administration Committee as non-interest bearing funding facilities for the Company's subsidiary Jilin Shibao to expand its production. The related borrowings were not due yet.

(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, 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, a subsidiary of the Company, 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 in 2017, and the entrusted loan will be changed to government grants upon achieving all or over 80% of the expected goals of the incubation.

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

23. Long-term borrowings (continued)

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

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

24. Deferred income

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Reason
Government grants	46,477,939.98	629,200.00	4,597,133.90	42,510,006.08	
Total	46,477,939.98	629,200.00	4,597,133.90	42,510,006.08	

(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 RMB8,912,045.63 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.

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

24. Deferred income (continued)

(3) Breakdown of government grants:

Project	Balance at the beginning of the period	Addition of grants during the period	Amount included in other gains during the period	Other movement	Balance at the end of the period	Assets related/income related
Special funds for adjustment and improvement project for traditional industry bases including the Northeast area	9,459,166.68	—	1,595,000.00	—	7,864,166.68	Assets related
Subsidy funds for the precious casting and processing of automotive components project	4,227,116.42	—	51,480.16	—	4,175,636.26	Assets related
Special funds for establishment of a platform for public services provided in foreign trading	1,049,151.70	—	182,589.30	—	866,562.40	Assets related
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	1,841,440.00	—	324,960.00	—	1,516,480.00	Assets related
Heavy load hydraulic rack-and-pinion steering gear for high class market	218,204.32	—	38,506.68	—	179,697.64	Assets related
Subsidies for R&D equipment	130,533.35	—	16,316.67	—	114,216.68	Assets related
Technological improvement project for quality enhancement of rack-and-pinion steering gears	4,337,406.20	—	371,777.70	—	3,965,628.50	Assets related
Construction project for development service platform of automotive steering system parts and components	17,805,620.35	—	1,723,124.58	—	16,082,495.77	Assets related
The annual production of 100,000 electric power steering system project	1,270,000.00	—	70,555.56	141,111.11	1,058,333.33	Assets related
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	Assets related
Technical improvement project of production capacity increasing of 500,000 units/sets of steering gear	1,239,300.96	—	81,712.14	—	1,157,588.82	Assets related
Key technological research project for high-safety smart automobile steer-by-wire system	900,000.00	—	—	—	900,000.00	Assets related
Wuhu Industrial Enterprises Technological Advancement and Investment Integrated Award	—	629,200.00	—	—	629,200.00	Assets related
Total	46,477,939.98	629,200.00	4,456,022.79	141,111.11	42,510,006.08	

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

25. Share capital

(1) Breakdown

Item	Balance at the beginning of the period	Increase/decrease during the period ("—" as decrease)				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	103,367,019.00	—	—	—	—	—	103,367,019.00
Shares held by domestic natural person	19,793,685.00	—	—	—	—	—	19,793,685.00
Shares without selling restrictions							
A Shares	449,698,933.00	—	—	—	—	—	449,698,933.00
H Shares	216,785,000.00	—	—	—	—	—	216,785,000.00
Total	789,644,637.00	—	—	—	—	—	789,644,637.00

26. Capital reserve

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Share premium	178,805,783.17	—	—	178,805,783.17
Other capital reserve	6,444,389.04	—	—	6,444,389.04
Total	185,250,172.21	—	—	185,250,172.21

27. Surplus reserve

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory reserve funds	134,912,363.87	—	—	134,912,363.87
Total	134,912,363.87	—	—	134,912,363.87

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

28. Retained earnings

Item	Balance for the current period	Balance for the corresponding period last year
Retained earnings at end of last year before adjustment	364,772,936.30	367,854,898.00
Total amount of adjustment of retained earnings at the beginning of the year (“+” as increase, “-” as decrease)		
Retained earnings at the beginning of the year after adjustment	364,772,936.30	367,854,898.00
Add: Net profit attributable to equity holders of the parent	-5,856,497.62	39,715,087.12
Less: Transfer to statutory reserve funds	—	—
Dividends payable	—	31,585,785.50
Retained earnings at the end of the period	358,916,438.68	375,984,199.62

(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	585,564,716.30	497,419,716.98	540,744,812.35	430,199,325.76
Revenue from other business	6,014,061.01	604,909.90	5,481,035.46	513,035.67
Total	591,578,777.31	498,024,626.88	546,225,847.81	430,712,361.43

2. Business taxes and surcharges

Item	Balance for the current period	Balance for the corresponding period last year
Urban maintenance and construction tax	820,741.58	735,732.67
Education surcharge	356,598.34	321,535.79
Local education surcharge	235,795.49	214,357.20
Stamp duty	684,187.87	240,990.12
Real estate tax	1,800,502.91	894,956.57
Urban land use tax	976,929.41	1,680,956.20
Vehicles and vessels use tax	26,604.48	16,390.50
Environmental tax	159.31	—
Total	4,901,519.39	4,104,919.05

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Sales expenses

Item	Balance for the current period	Balance for the corresponding period last year
Transportation cost	14,033,353.51	10,871,607.45
Warranty fee	15,653,089.71	6,298,544.42
Wages, welfare and bonuses	4,733,865.63	5,031,048.39
Travelling expenses	1,284,196.42	1,219,684.77
Entertainment charge	1,700,594.14	1,931,569.08
Depreciation of fixed assets	143,900.08	212,932.71
Others	2,979,863.84	2,878,276.58
Total	40,528,863.33	28,443,663.40

4. General and administration expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	20,369,716.94	16,679,619.40
Research and development expenses	32,309,297.22	18,593,702.78
Office cost	2,912,691.23	3,210,985.61
Professional service fee	3,780,396.01	2,525,194.89
Depreciation of fixed assets	2,009,359.86	2,058,508.29
Amortization of intangible assets	2,344,344.13	3,660,933.69
Other taxation	89,740.20	—
Travelling expenses	1,658,780.78	1,427,502.39
Entertainment charge	1,002,940.16	1,231,150.88
Others	1,340,477.71	1,252,077.13
Total	67,817,744.24	50,639,675.06

5. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	1,623,214.05	396,027.55
Interest income	-2,320,584.46	-449,060.71
Others	366,103.55	153,802.28
Total	-331,266.86	100,769.12

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

6. Assets impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debts losses	-1,305,096.97	-2,615,434.36
Provision for inventories losses	1,804,899.72	691,593.38
Total	499,802.75	-1,923,840.98

7. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Gains from bank short-term wealth management products	2,436,590.84	4,726,634.21
Total	2,436,590.84	4,726,634.21

8. Gains from disposal of assets

Item	Balance for the current period	Balance for the corresponding period last year
Gains from disposal of fixed assets	113,907.91	-579,416.53
Total	113,907.91	-579,416.53

9. Other gains

Item	Balance for the current period	Balance for the corresponding period last year
Government grants	7,071,722.79	7,606,532.29
Total	7,071,722.79	7,606,532.29

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

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

10. Non-operating income

Item	Balance for the current period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Others	567,420.78	26,072.59	567,420.78
Total	567,420.78	26,072.59	567,420.78

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 funds	43,996.02	46,046.64	—
Others	370,557.99	76,003.40	370,557.99
Total	414,554.01	122,050.04	370,557.99

12. Income tax expenses

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Current income tax	288,789.86	4,705,013.28
Deferred income tax	59,966.91	812,275.07
Total	348,756.77	5,517,288.35

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

12. Income tax expenses (continued)

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

Item	Balance for the current period
Total profit	-10,087,424.11
Income tax expenses calculated at legal/applicable tax rate	-2,521,856.03
Effects of different applicable tax rates on subsidiaries	565,541.70
Effects of adjusting income tax of prior periods	22,894.47
Effects on non-taxable income	-411,620.04
Effects of including and excluding R&D expenses	-1,497,656.83
Effects on non-deductible costs, expenses and losses	480,367.55
Effects of utilization of deductible loss arising from deferred income tax assets not previously recognized	—
Effects of deductible temporary difference arising from unrecognized deferred income tax assets or deductible loss of the subsidiary suffering losses during the period	3,711,085.95
Income tax expenses	348,756.77

(3) No provision for Hong Kong profits tax has been made for the period from January to June 2018 as the Company and its other subsidiaries had no profits generated in or arising from Hong Kong.

(3) Notes to the Consolidated Statement of Cash Flows

1. Cash received in relation to operating activities

Item	Balance for the current period	Balance for the corresponding period last year
Recovery of deposits including banker's acceptances	7,636,104.83	7,585,375.11
Receipt of government grants which are revenue related	2,615,700.00	3,118,950.00
Interest income	2,320,584.46	449,060.71
Others	567,420.78	26,072.59
Total	13,139,810.07	11,179,458.41

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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	29,998,775.15	24,811,934.31
Cash paid as general and administrative expenses	10,427,706.21	12,871,413.73
Payment of deposits including banker's acceptances	15,401,595.73	1,259,119.85
Others	2,080,144.76	2,934,689.00
Total	57,908,221.85	41,877,156.89

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	629,200.00	978,400.00
Total	629,200.00	978,400.00

4. Cash paid in relation to financing activities

Item	Balance for the current period	Balance for the corresponding period last year
Up-front fee of non-public issuance	273,611.95	646,649.52
Total	273,611.95	646,649.52

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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	-10,436,180.88	40,288,784.90
Add: Provision for impairment to assets	499,802.75	-1,923,840.98
Depreciation of fixed assets, oil and gas assets and production	33,865,221.34	31,843,576.06
Amortization of intangible assets	3,701,450.13	4,834,803.82
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" as gains)	-113,907.91	579,416.53
Finance expenses ("-" as gains)	1,628,252.97	393,989.59
Investment losses ("-" as gains)	-2,436,590.84	-4,726,634.21
Decrease in deferred income tax assets ("-" as increase)	235,093.99	1,249,487.95
Increase in deferred income tax liabilities ("-" as decrease)	-175,127.08	-437,212.88
Decrease in inventories ("-" as increase)	-30,705,699.23	-15,064,810.47
Decrease in operational receivables ("-" as increase)	-16,333,742.15	-11,138,610.18
Increase in operational payables ("-" as decrease)	23,423,092.79	-61,184,337.99
Net cash flows from operating activities	3,151,665.88	-15,285,387.86
2) Significant investment and financing activities not related to cash receipts and payments:	-	-
3) Net change in cash and cash equivalents:		
Cash at the end of the period	187,118,949.24	157,731,796.66
Less: Cash at the beginning of the period	160,425,712.97	117,330,581.92
Net increase in cash and cash equivalents	26,693,236.27	40,401,214.74

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

(2) Cash and cash equivalents

Item	Balance at the end of the period	Balance at the beginning of the period
1) Cash	187,118,949.24	160,425,712.97
Including: Cash on hand	96,711.03	309,027.11
Bank deposit readily available	187,022,238.21	160,116,685.86
2) Cash equivalents	—	—
3) Closing balance of cash and cash equivalents	187,118,949.24	160,425,712.97

Closing balance of cash and cash equivalents in the statement of cash flows for the period of January to June 2018 was RMB187,118,949.24 and closing balance of cash on hand and at bank in the balance sheet as at 30 June 2018 was RMB218,801,466.72. The difference of RMB31,682,517.48 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 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.

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

Item	Balance for the current period	Balance for the corresponding period last year
Transferred endorsed commercial bill	411,919,518.47	415,463,679.52
Including: bills payable	398,645,998.10	390,007,037.12
payment for the purchase of long-term assets such as fixed assets	13,273,520.37	25,456,642.40

NOTES TO THE FINANCIAL STATEMENTS

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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	31,682,517.48	Security deposits
Bills receivable	61,592,692.68	Pledge
Fixed assets	4,444,552.66	Charge
Intangible assets	3,154,439.60	Charge
Total	<u>100,874,202.42</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			83,927.80
Including: US Dollar	12,684.43	6.6166	83,927.80
Accounts receivable			1,202,540.53
Including: US Dollar	33,940.28	6.6166	224,569.26
Euro	127,814.32	7.6515	977,971.27

NOTES TO THE FINANCIAL STATEMENTS

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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	12,649,166.68	—	1,595,000.00	11,054,166.68	Other gains	Note 1
Subsidy funds for the precious casting and processing of automotive components project	4,330,076.81	—	51,480.16	4,278,596.65	Other gains	Note 2
Special funds for establishment of a platform for public services provided in foreign trading	1,414,330.30	—	182,589.30	1,231,741.00	Other gains	Note 3
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	2,491,360.00	—	324,960.00	2,166,400.00	Other gains	Note 4
Heavy load hydraulic rack-and-pinion steering gear for high class market	295,217.68	—	38,506.68	256,711.00	Other gains	Note 5
Subsidies for research and development equipment	163,166.68	—	16,316.67	146,850.01	Other gains	Note 6
Technological improvement project for quality enhancement of rack-and-pinion steering gears	5,080,961.60	—	371,777.70	4,709,183.90	Other gains	Note 7
Construction project for development service platform of automotive steering system parts and components	21,251,869.51	—	1,723,124.58	19,528,744.93	Other gains	Note 8
The annual production of 100,000 electric power steering system project	1,270,000.00	—	70,555.56	1,199,444.44	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	1,402,725.24	—	81,712.14	1,321,013.10	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
Wuhu Industrial Enterprises Technological Advancement and Investment Integrated Award	—	629,200.00	—	629,200.00	Other gains	Note 13
Sub-total	55,248,874.50	629,200.00	4,456,022.79	51,422,051.71		
Including: deferred income	46,477,939.98	—	—	42,510,006.08		
other current liabilities	8,770,934.52	—	—	8,912,045.63		

Note: In this period, deferred income directly credited other gains amounted to RMB70,555.56, deferred income which will be amortized within 1 year under other current assets transferred to other gains amounted to RMB4,385,467.23.

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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年安徽省创新型省份建設專項資金計劃(獎補類)的通知》) (Ke Ji (2014) No.58) (科計[2014] 58號) issued by Anhui Province Department of Science and Technology (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

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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 13) According to the Notice Regarding the Transmit of the Interim Measures on the Comprehensive Rewards and Subsidies of the Technical Innovation and Investment of Industrial Enterprises in Wuhu City issued by the Commission of Economy and Information Technology and Bureau of Finance by the Office of the People's Government of Wuhu City (Wu Zheng Ban [2017] No. 9) (蕪湖市人民政府辦公室關於轉發市經信委市財政局蕪湖市工業企業技術改造投資綜合獎補暫行辦法的通知蕪政辦[2017]9號).

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
Industrial Innovative Development Fund	623,600.00	Other gains	Note 1
Tax Incentives per Acre of the Wuhu Economic and Technology Zone	836,100.00	Other gains	Note 2
2016 R&D Investment Subsidy of Development Zone	1,067,300.00	Other gains	Note 3
2016 Stable Employment Subsidy	31,200.00	Other gains	Note 4
Other Government Grants	57,500.00	Other gains	
Sub-total	<u>2,615,700.00</u>		

NOTES TO THE FINANCIAL STATEMENTS

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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) Certain Opinions on Accelerating the Development of Private Economy issued by the Municipal Party Committee of Siping City and the People's Government of Siping City (Si Fa [2016] No.19) (中共四平市委、四平市人民政府《關於加快民營經濟發展的若干意見》四發[2016]19號)

(Note 2) "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 3) Notice of the Payment of 2016 R&D Investment Subsidy of Development Zone issued by the Management Committee of the Economic and Technological Development Zone (Hang Jing Kai Guan Fa [2018] No.80) (杭州經濟技術開發區管委會《關於下達2016年開發區企業研發投入資助的通知》(杭經開管發[2018]80號)

(Note 4) Documents of the Department of Human Resources and Social Security of Jinlin Province and Jilin Province Department of Finance/Jin Ren She Lian Zi [2017] No.16 (吉林省人力資源和社會保障廳、吉林省財政廳文件/吉人社聯字[2017]16號)

- (2) Government grants credited to the current profit or loss for the period amounted to RMB7,071,722.79.

4. Interest expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	1,623,214.05	396,027.55
Including: Bank loans, interests of other loans fully repayable within 5 years	1,623,214.05	396,027.55
Interests of other loans not fully repayable within 5 years	—	—
Less: Capitalized interests		
Finance cost — interest expenses	1,623,214.05	396,027.55

During the period from January to June 2018 and from January to June 2017, there was no interest capitalization.

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

5. Net current assets, and total assets less current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Net current assets	649,892,695.91	689,857,330.13
Total assets less current liabilities	1,535,451,057.18	1,550,030,299.04

6. Depreciation and amortization expenses

Item	Balance for the current period	Balance for the corresponding period last year
Depreciation of fixed assets, oil and gas assets and production related biological materials	33,865,221.34	31,843,576.06
Amortization of intangible assets	3,701,450.13	4,834,803.82
Total	37,566,671.47	36,678,379.88

7. Earnings per share

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

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

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

	Balance for the current period	Balance for the corresponding period last year
Earnings		
Net profit attributable to the ordinary shareholders of the Company	-5,856,497.62	39,715,087.12
Shares		
Weighted average number of ordinary shares issued by the Company	789,644,637.00	789,644,637.00
Basic earnings per share (RMB)	-0.0074	0.0503
Diluted earnings per share (RMB)	-0.0074	0.0503

The basic earnings per share and diluted earnings per share for the corresponding period of last year were based on the diluted share capital as at the end of last year.

8. Segment reporting – Operating segment

As the operations and assets of both the Company and its subsidiaries are related to automotive steering system and components, and are mainly located in Mainland China, no further detailed segmental information needs to be disclosed.

NOTES TO THE FINANCIAL STATEMENTS

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6. OWNER'S EQUITY IN OTHER ENTITIES

(1) Owner's equity in significant subsidiaries

1. Particulars of significant subsidiaries

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

2. Significant non-wholly owned subsidiaries

Name of subsidiary	Percentage of shareholding of minority shareholders	Profit or loss contributed to minority shareholders of the current period	Declared dividends distribution to minority shareholders of the current period	Balance of minority shareholders' equity at the end of the period
Hangzhou New Shibao	30.00	-2,855,139.81	—	-4,928,440.43
Wuhu Sterling	42.11	-1,724,543.45	—	14,784,172.86

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

(1) Assets and liabilities

Name of subsidiary	As at the end of the period					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou New Shibao	239,210,290.34	73,958,191.22	313,168,481.56	328,730,053.94	866,562.40	329,596,616.34
Wuhu Sterling	108,299,211.12	57,063,579.25	165,362,790.37	123,619,455.99	6,634,873.54	130,254,329.53

Name of subsidiary	As at the end of the period					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou New Shibao	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	112,657,872.19	58,444,734.91	171,102,607.10	125,586,157.35	6,312,658.96	131,898,816.31

(2) Profit/loss and cash flows

Name of subsidiary	Balance for the current period				Balance for the corresponding period last year			
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Hangzhou New Shibao	184,681,434.09	-9,517,132.73	-9,517,132.73	2,020,183.44	109,985,047.85	7,314,188.69	7,314,188.69	6,236,209.80
Wuhu Sterling	45,161,093.87	-4,095,329.95	-4,095,329.95	1,800,472.85	57,223,937.79	-3,848,394.28	-3,848,394.28	7,468,541.06

NOTES TO THE FINANCIAL STATEMENTS

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7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(1) Details of financial instruments

Item	Balance at the end of the period	Balance at the beginning of the period
Financial assets	843,631,378.22	817,874,267.36
Including: Cash on hand and at bank	218,801,466.72	184,342,739.55
Notes receivable	143,322,051.34	114,302,216.24
Accounts receivable	472,049,148.24	512,761,243.71
Other receivables	9,458,711.92	6,468,067.86
Financial liabilities	604,207,549.66	529,884,642.98
Including: Bank and other borrowings	66,080,000.00	11,080,000.00
Notes payable	116,008,274.25	105,976,263.36
Accounts payable	402,362,056.52	391,592,296.47
Staff costs payable	13,307,754.90	15,671,079.38
Interests payable	1,056,187.54	882,136.11
Other payables	5,393,276.45	4,682,867.66

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 30 June 2018, the Company had certain concentration of credit risk as 40.44% (31 December 2017: 36.09%) 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

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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	218,801,466.72	—	—	—	218,801,466.72
Notes receivable	143,322,051.34	—	—	—	143,322,051.34
Accounts receivable	464,406,208.68	6,844,530.93	796,652.05	1,756.58	472,049,148.24
Other receivables	9,458,711.92	—	—	—	9,458,711.92
Total	835,988,438.66	6,844,530.93	796,652.05	1,756.58	843,631,378.22

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
Total	813,980,466.67	3,034,967.39	342,177.06	516,656.24	817,874,267.36

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

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

NOTES TO THE FINANCIAL STATEMENTS

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7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

1. Classification of financial assets based on the remaining maturity

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Cash on hand and at bank	218,801,466.72	218,801,466.72	218,801,466.72	—	—
Notes receivable	143,322,051.34	143,322,051.34	143,322,051.34	—	—
Accounts receivable	472,049,148.24	472,049,148.24	472,049,148.24	—	—
Other receivables	9,458,711.92	9,458,711.92	9,458,711.92	—	—
Total	843,631,378.22	843,631,378.22	843,631,378.22	—	—

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	—	—
Total	817,874,267.36	817,874,267.36	817,874,267.36	—	—

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	66,080,000.00	68,142,211.11	56,877,266.67	2,149,361.11	9,115,583.33
Notes payable	116,008,274.25	116,008,274.25	116,008,274.25	—	—
Accounts payable	402,362,056.52	402,362,056.52	402,362,056.52	—	—
Staff costs payable	13,307,754.90	13,307,754.90	13,307,754.90	—	—
Interest payable	1,056,187.54	1,056,187.54	1,056,187.54	—	—
Other payables	5,393,276.45	5,393,276.45	5,393,276.45	—	—
Total	604,207,549.66	606,269,760.77	595,004,816.33	2,149,361.11	9,115,583.33

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	—	—
Staff costs 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	529,884,642.98	530,116,642.98	518,804,642.98	2,190,000.00	9,122,000.00

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7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(4) Market risk

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

1. Interest rate risk

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

As at 30 June 2018, the bank borrowings of the Company with floating interest rates were RMB55,000,000.00 (31 December 2017: RMB0.00), and a reasonable and possible 50% base point change in interest rates, with all other variables held constant, will not have any significant impact on total profit and shareholders' equity of the Company.

2. Foreign exchange risk

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. As at 30 June 2018, the Company's gearing ratio was -8.92% (2017:-11.15%). The calculation is described as follow:

Item	Balance at the end of the period	Balance at the beginning of the period
Total borrowings	66,080,000.00	11,080,000.00
Less: Cash and cash equivalents	187,118,949.24	160,425,712.97
Net debt	-121,038,949.24	-149,345,712.97
Equity	1,478,579,344.19	1,489,015,525.07
Total capital	1,357,540,394.95	1,339,669,812.10
Gearing ratio	-8.92%	-11.15%

NOTES TO THE FINANCIAL STATEMENTS

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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 13,941,473 shares of A Share out of the shares of the Company held by it (representing 1.77% of the total share capital of the Company) to Caitong Securities Co., Ltd.. During the Reporting Period, there was no change in the number of Shares pledged by Shibao Holding. On 9 July 2018, Shibao Holding further pledged 7,000,000 shares of A Share out of the shares of the Company held by it (representing 0.89% 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 20,941,473 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.

At the beginning of the period, Shibao Holding held 343,948,002 A Shares (representing 43.56% of the total share capital of the Company). During the Reporting Period, there was no change in the number of Shares held by Shibao Holding. On 31 July 2018, 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 RMB5.25 per A Share into 2,161,904 A Shares of Zhejiang Shibao. Accordingly, Shibao Holding's shareholding in Zhejiang Shibao reduced from 343,948,002 A Shares to 341,786,098 A Shares, in terms of percentage in total share capital, its shareholding interest decreased from 43.56% to 43.28%.

As at the date of the approval of this financial report, Shibao Holding holds 341,786,098 shares of A Share of the Company, and the number of pledged shares is 18,779,569 shares of A Share, representing 5.49% of shares of the Company held by it.

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

2. Details of the Company's subsidiaries are listed in the note to the financial statements "Owner's equity in other entities".

NOTES TO THE FINANCIAL STATEMENTS

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8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(2) Related parties transactions

1. Guarantee with related parties

The Company and its subsidiaries as the secured parties

Guarantor	Guaranteed amount	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fully fulfilled
Shibao Holding	2,000,000.00	2017.01.18	2020.01.17	No
Zhang Shi Quan	20,000,000.00	2018.04.02	2019.03.28	No
Zhang Shi Quan	20,000,000.00	2018.06.08	2018.12.04	No
Zhang Shi Quan, Shibao Holding	15,000,000.00	2018.06.12	2019.06.05	No
Zhang Shi Quan	2,400,000.00	2018.02.09	2018.08.08	No
Zhang Shi Quan	1,093,700.00	2018.05.30	2018.11.30	No
Shibao Holding	8,000,000.00	2018.06.20	2018.12.20	No

(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)	7,404,000.00	2,245,000.00
	Hangzhou Shibao (Note)	—	2,335,404.66
	Jilin Shibao (Note)	6,795,122.00	4,079,900.00
	Hangzhou New Shibao (Note)	20,960,000.00	—
	Beijing Autonics (Note)	8,163,045.96	4,478,297.68
Total		43,322,167.96	13,138,602.34

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

(4) Remuneration/fee of key management

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	1,603,890.22	1,581,414.27
Other key management	2,381,301.99	515,968.84
Total	3,985,192.21	2,097,383.11

NOTES TO THE FINANCIAL STATEMENTS

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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	98,442,409.83	63,565,872.08

(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

As at the date of the approval of this financial report, there were no events after the balance sheet date.

11. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

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

1. Accounts receivable

(1) Breakdown

1) Breakdown by types

Type	Balance at the end of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	60,405,961.14	99.52	—	—	60,405,961.14
Individually insignificant but significant based on credit risk characteristics	292,979.00	0.48	292,979.00	100.00	—
Individually insignificant amount with bad debt provision on individual basis	—	—	—	—	—
Total	60,698,940.14	100.00	292,979.00	0.48	60,405,961.14

Type	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	(%)	Amount	(%)	
Individually significant amount with bad debt provision on individual basis	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	—	—	—	—	—
Total	65,236,310.12	100.00	292,979.00	0.45	64,943,331.12

NOTES TO THE FINANCIAL STATEMENTS

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

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

1. Accounts receivable (continued)

(1) Breakdown (continued)

2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
Within 1 year	14,286,773.38	23.54	—	17,924,758.82	27.48	—
1-2 years	23,646,223.01	38.96	—	47,018,572.30	72.07	—
2-3 years	22,472,964.75	37.02	—	—	—	—
Over 3 years	292,979.00	0.48	292,979.00	292,979.00	0.45	292,979.00
Sub-total	60,698,940.14	100.00	292,979.00	65,236,310.12	100.00	292,979.00

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

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Receivables of sales payment from Wuhu Sterling	60,405,961.14	—	—	Individual impairment test showed no risk was expected of balance recover
Sub-total	60,405,961.14	—	—	

4) Provision for bad debt by groups

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

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

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

(4) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
Wuhu Sterling	60,405,961.14	99.52	—
Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd. (贛州江環汽車製造有限公司)	125,000.00	0.21	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. Shiyuan 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	60,643,131.14	99.91	237,170.00

NOTES TO THE FINANCIAL STATEMENTS

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

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

2. Other receivables

(1) Breakdown

1) Breakdown by types

Type	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	349,436,413.52	99.86	—	—	349,436,413.52
Individually insignificant but significant based on credit risk characteristics	191,422.80	0.05	—	—	191,422.80
Individually insignificant amount with bad debt provision on individual basis	296,736.72	0.09	—	—	296,736.72
Total	349,924,573.04	100.00	—	—	349,924,573.04

Type	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Individually significant amount with bad debt provision on individual basis	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
Total	344,608,524.35	100.00	—	—	344,608,524.35

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	41,201,101.24	11.77	—	45,210,189.07	13.12	—
1-2 years	135,701,040.76	38.78	—	136,051,146.92	39.48	—
2-3 years	17,726,900.66	5.07	—	17,273,728.93	5.01	—
Over 3 years	155,295,530.38	44.38	—	146,073,459.43	42.39	—
Sub-total	349,924,573.04	100.00	—	344,608,524.35	100.00	—

NOTES TO THE FINANCIAL STATEMENTS

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

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

2. Other receivables (continued)

(1) Breakdown (continued)

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

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Receivables from Jilin Shibao and others	349,436,413.52	—	—	Individual impairment test showed no risk was expected of balance recover
Sub-total	349,436,413.52	—	—	

4) Provision for bad debt by groups

Group	Carrying amount	Provision (%)	Provision for bad debts
Individually insignificant but significant based on credit risk characteristics	191,422.80	—	—
Sub-total	191,422.80	—	—

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

Description	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Other receivables of individual imprest and others	296,736.72	—	—	Individual impairment test showed no risk was expected of balance recover
Sub-total	296,736.72	—	—	

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

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

(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	349,436,413.52	343,598,104.01
Security deposits	145,129.50	145,129.50
Imprest	202,168.16	11,154.32
Others	140,861.86	854,136.52
Sub-total	349,924,573.04	344,608,524.35

NOTES TO THE FINANCIAL STATEMENTS

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

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

2. Other receivables (continued)

(5) The five largest other receivables

Name	Nature of receivables	Carrying amount	Age	Percentage to the balance of other receivables (%)	Provision for bad debts
Jilin Shibao	Current accounts	114,290,000.00	1-2 years, 2-3 years	32.66	—
Beijing Autonics	Current accounts	114,008,817.00	Within 1 year, 1-2 years, 2-3 years, Over 3 years	32.58	—
Hangzhou New Shibao	Current accounts	98,611,884.78	Within 1 year, 1-2 years, 2-3 years, Over 3 years	28.18	—
Siping Steering	Current accounts	22,525,711.74	Within 1 year, 1-2 years, 2-3 years, Over 3 years	6.44	—
Guo Zhi Qiang	Imprest	94,500.00	Within 1 year	0.03	—
Sub-total		349,530,913.52		99.89	—

3. Long-term equity investments

(1) Breakdown

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Investments in subsidiaries	185,159,214.87	—	185,159,214.87	185,159,214.87	—	185,159,214.87
Total	185,159,214.87	—	185,159,214.87	185,159,214.87	—	185,159,214.87

(2) Investment in subsidiaries

Investees	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Provision for impairment during the period	Provision for impairment at the end of the period
Hangzhou Shibao	70,461,807.49	—	—	70,461,807.49	—	—
Hangzhou New Shibao	42,000,000.00	—	—	42,000,000.00	—	—
Siping Steering	13,250,000.00	—	—	13,250,000.00	—	—
Jilin Shibao	30,000,000.00	—	—	30,000,000.00	—	—
Beijing Autonics	10,000,000.00	—	—	10,000,000.00	—	—
Wuhu Sterling	19,447,407.38	—	—	19,447,407.38	—	—
Sub-total	185,159,214.87	—	—	185,159,214.87	—	—

NOTES TO THE FINANCIAL STATEMENTS

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

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

3. Long-term equity investments (continued)

(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	185,159,214.87	185,159,214.87
Total	185,159,214.87	185,159,214.87

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

1. Revenue/cost of sales

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Revenue from main business	23,316,264.84	18,975,052.48	25,224,837.13	21,238,270.15
Revenue from other business	189,074.32	78,860.87	143,207.38	74,197.99
Total	23,505,339.16	19,053,913.35	25,368,044.51	21,312,468.14

2. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from long-term equity investments under cost method of accounting	—	40,000,000.00
Gains from bank short-term wealth management products	2,287,030.23	1,849,167.12
Total	2,287,030.23	41,849,167.12

NOTES TO THE FINANCIAL STATEMENTS

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12. OTHER SUPPLEMENTAL INFORMATION

(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	113,907.91	
Government subsidy included in profit or loss for the period, except for those closely relevant to normal business of the company, conformed to requirements of State policy, granted on fixed amount basis or enjoyed on continuous fixed amount basis	7,071,722.79	
Gain or loss on entrusted investment or asset management	2,436,590.84	
Reversal of impairment provisions for receivables subject to individual impairment test	1,305,096.97	
Other non-operating income and expenses apart from those stated above	196,862.79	
Less: Effect on enterprise income tax	319,125.99	
Effect on interest of minority shareholders (after tax)	622,833.69	
Net non-recurring gains or losses attributable to equity holders of the parent	10,182,221.62	

(2) Return on net assets and earnings per share

Profit for the reporting period	Weighted average return on net assets ratio (%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profits attributable to the ordinary shareholders of the Company	-0.40	-0.0074	-0.0074
Net profits after deducting non-recurring profit or loss attributable to the ordinary shareholders of the Company	-1.09	-0.0203	-0.0203

DISCUSSION AND ANALYSIS OF OPERATIONS

1) REVIEW OF CHINA AUTOMOBILE INDUSTRY

From January to June 2018, production and sales volume of China automobile industry were 14,058,000 units and 14,066,000 units respectively, representing an increase of 4.20% and 5.60% respectively as compared with last year. Production and sales of passenger cars were 11,854,000 units and 11,775,000 units respectively, representing an increase of 3.20% and 4.60% respectively as compared with last year. Among passenger cars, sales volume of China-brand passenger cars was 5,109,000 units, representing an increase of 3.40% as compared with last year. Production and sales of commercial vehicles were 2,204,000 units and 2,291,000 units respectively, representing an increase of 9.40% and 10.60% respectively as compared with last year. Among commercial vehicles, production and sales volume of buses increased by 5.20% and 2.80% respectively as compared with last year; production and sales volume of trucks increased by 9.90% and 11.50% respectively as compared with last year. Production and sales volume of new energy cars were 413,000 units and 412,000 units respectively, representing an increase of 94.90% and 111.50% respectively as compared with last year. The top ten automaker groups in China sold 12,517,000 units of automobiles, representing an increase of 6.00% as compared with last year, and their sales represented 89.00% of the total sales of the automobile, representing an increase of 0.40% as compared with last year.

2) ANALYSIS OF MAIN BUSINESS

1. Changes in major financial information

	January-June 2018	January-June 2017	Change
Revenue	591,578,777.31	546,225,847.81	8.30%
Operating costs	498,024,626.88	430,712,361.43	15.63%
Selling expenses	40,528,863.33	28,443,663.40	42.49%
General and administrative expenses	67,817,744.24	50,639,675.06	33.92%
Financial expenses	-331,266.86	100,769.12	-428.74%
Investment gains	2,436,590.84	4,726,634.21	-48.45%
Income tax expenses	348,756.77	5,517,288.35	-93.68%
Research and development expenses	32,309,297.22	18,593,702.78	73.76%
Net cash flows from operating activities	3,151,665.88	-15,285,387.86	-120.62%
Net cash flows from investing activities	-29,730,616.12	54,724,603.49	-154.33%
Net cash flows from financing activities	53,277,225.43	959,961.15	5,449.94%
Net increase of cash and cash equivalents	26,693,236.27	40,401,214.74	-33.93%

During the reporting period, benefited from the substantial increase in sales of EPS (電動助力轉向系統) products and the good performance of domestic commercial vehicle market, resulting in stable increase in the sales of recirculating ball steering gear products of the Company, the Company recorded a revenue of RMB591,578,777.31, representing an increase of 8.30% as compared with last year.

During the reporting period, the gross profit of the Company's main business amounted to RMB88,144,999.32, representing a decrease of RMB22,400,487.27 as compared with last year. The gross profit margin of the Company's main business was 15.05% (corresponding period of last year: 20.44%). The gross profit margin of the Company's steering products for commercial vehicles increased year-on-year; however, as the steering products for passenger cars are under technological upgrading and updating, the gross profit margin of traditional power automotive steering gear products dropped sharply; certain projects of EPS products as new substitute products have not recorded profit. All these factors resulted in a decrease in the gross profit margin of the Company's main business.

DISCUSSION AND ANALYSIS OF OPERATIONS

During the reporting period, the Company's selling expenses amounted to RMB40,528,863.33, representing an increase of 42.49% as compared with last year, which was mainly attributable to the increase in transportation cost as a result of the increase in sales and changes in product mix, the increase in warranty fee caused by the increase in sales of EPS products and the cultivation and promotion of the intelligent steering product market.

During the reporting period, the Company's general and administrative expenses amounted to RMB67,817,744.24, representing an increase of 33.92% as compared with last year, which was mainly attributable to the increase in staff wages and welfare, research and development expenses and professional service fee. The overall increase in labour cost of the Company led to an increase in staff wages and welfare. The Company's research and development expenses were mainly used on the technical research of automotive steering system's safety, intelligent, automation, energy saving and light weight, so as to maintain the Company's competitive edge in respect of sustainable development. During the reporting period, the Company invested abundant research and development expenses in the core technical fields of motorized, intelligent, automation and high-end hydraulic steering, resulting in an increase in research and development expenses. The increase in the Company's professional service fee was mainly due to the service charge paid to intermediaries for the non-public issuance of A shares.

During the reporting period, the Company's financial expenses amounted to RMB-331,266.86 (corresponding period of last year: RMB100,769.12). The change was mainly caused by interest income more than interest expenses.

During the reporting period, the Company's investment gains amounted to RMB2,436,590.84, representing a decrease of 48.45% as compared with last year, which was mainly due to the decrease in gains from short-term bank wealth management products.

During the reporting period, the Company's income tax expense amounted to RMB348,756.77, representing a decrease of 93.68% as compared with last year, which was 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 RMB-5,856,497.62 during the reporting period, representing a decrease of 114.75% as compared with last year.

During the reporting period, net cash flow from operating activities increased by 120.62% as compared with last year, mainly due to the increase in cash from sales receipts and decrease in cash paid for taxes. Net cash flow from investing activities decreased by 154.33% as compared with last year, mainly due to the decrease in funds used for purchase of wealth management products and in cash inflow from redemption of wealth management products at maturity, and the increase in cash paid to acquire fixed assets. Net cash flow from financing activities increased by 5,449.94% as compared with last year, mainly due to the increase in bank borrowings. In view of the above, during the reporting period, net increase in cash and cash equivalents decreased by 33.93% as compared with last year.

DISCUSSION AND ANALYSIS OF OPERATIONS

2. Composition of revenue

	January-June 2018		January-June 2017		Change
	Amount	Proportion to revenue	Amount	Proportion to revenue	
Total Revenue	591,578,777.31	100%	546,225,847.81	100%	8.30%
By industry					
Manufacture of automotive components and parts	585,564,716.30	98.98%	540,744,812.35	99.00%	8.29%
Others	6,014,061.01	1.02%	5,481,035.46	1.00%	9.72%
By products					
Steering system and parts	556,073,620.88	94.00%	519,031,720.19	95.02%	7.14%
Parts and others	29,491,095.42	4.98%	21,713,092.16	3.98%	35.82%
Others	6,014,061.01	1.02%	5,481,035.46	1.00%	9.72%

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

	Revenue	Cost	Gross margin	Change of revenue	Change of cost	Change of gross margin
By industry						
Manufacture of automotive components and parts	585,564,716.30	497,419,716.98	15.05%	8.29%	15.63%	-5.39%
By products						
Steering system and parts	556,073,620.88	472,865,630.66	14.96%	7.14%	14.28%	-5.32%

3) ANALYSIS OF ASSETS AND LIABILITIES

1. Significant changes in composition of assets

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

	30 June 2018		31 December 2017		Change
	Amount	Percentage of total assets	Amount	Percentage of total assets	
Cash on hand and at bank	218,801,466.72	10.14%	184,342,739.55	8.76%	1.38%
Notes receivable	143,322,051.34	6.64%	114,302,216.24	5.43%	1.21%
Accounts receivable	472,049,148.24	21.87%	512,761,243.71	24.37%	-2.50%
Inventories	309,535,044.18	14.34%	279,634,663.89	13.29%	1.05%
Other current assets	111,763,468.87	5.18%	139,737,784.36	6.64%	-1.46%
Fixed assets	591,745,300.34	27.41%	592,681,978.24	28.16%	-0.75%
Construction in progress	119,031,895.40	5.51%	119,801,083.84	5.69%	-0.18%
Notes payable	116,008,274.25	5.37%	105,976,263.36	5.04%	0.33%
Accounts payable	402,362,056.52	18.64%	391,592,296.47	18.61%	0.03%

DISCUSSION AND ANALYSIS OF OPERATIONS

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

Assets with restrictions in ownership or use rights

Item	Carrying amount at the end of the period	Reason for restriction
Cash on hand and at bank	31,682,517.48	Security deposits (Note 1)
Notes receivable	61,592,692.68	Pledge (Note 2)
Fixed assets	4,444,552.66	Charge
Intangible assets	3,154,439.60	Charge
Total	<u>100,874,202.42</u>	

(Note 1): Represents the security deposits of RMB31,682,517.48 for the issuance of bank acceptance bills.

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

3. Financial resources and capital structure

As at 30 June 2018, the amount of total loans and borrowings of the Company was RMB66,080,000.00 (31 December 2017: RMB11,080,000.00). Total loans and borrowings increased by RMB55,000,000.00 when compared with the beginning of the year, mainly due to the increase of 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 2017: RMB280,000.00).

The Company issued 38.2 million RMB ordinary shares (A Shares) by way of non-public issue in 2014 at issue price of RMB18.46 per share, which raised a gross proceeds of RMB705,172,000.00 and a net proceeds of RMB658,162,877.04 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 between January and June of 2018 was RMB43,276,736.41, and RMB200,000,000.00 was used for temporary supplement of working capital. As at 30 June 2018, balance of proceeds amounted to RMB182,836,104.18, which included the accumulated amount of interests received from bank deposits and net gains from short-term bank wealth management products less bank handling fees and others.

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity attributable to shareholders of the Company plus net debt. At the end of the reporting period, the Company's gearing ratio was -8.92% (31 December 2017: - 11.15%).

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

DISCUSSION AND ANALYSIS OF OPERATIONS

OUTLOOK

During the reporting period, the Company exported hydraulic power recirculating ball steering gear products for commercial vehicles to Germany in batches and EPS products for commercial vehicles to emerging markets in small batches. It is expected that the Company will continue to promote the export business in the second half of the year.

During the reporting period, the Company successively purchased EPS assembly line and key parts production equipment. It is expected that the assembly capacity of the EPS products will reach 1 million sets per year at the end of this year.

During the reporting period, the Company exerted efforts on cost reduction for EPS products, and it is expected that the gross profit margin of EPS products will be improved in the second half of the year.

During the reporting period, the Company's non-public issuance of A shares was not completed due to the expiration of the approval issued by the China Securities Regulatory Committee. The Company will continue to use its own funds and bank loans for investment in the construction of production capacity of intelligent steering assembly and critical parts for passenger cars and commercial vehicles and the research and development centre of automotive intelligent technology which were originally planned to be funded with the proceeds from the abovementioned issuance of shares. The investment progress will be adjusted or slowed down based on the availability of funds and market demand.

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.

Forecast on the operating results between January and September 2018

Net profit between January and September 2018 (RMB ten thousands)	-1,800.00 To -900.00
Net profit attributable to shareholders of the listed issuer between January and September 2017 (RMB ten thousands)	4,107.90

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.

ANALYSIS ON CORE COMPETENCE

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

DISCUSSION AND ANALYSIS OF OPERATIONS

- 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 structure and policy of the Company are established to meet listing requirements in the Mainland China and Hong Kong with transparent financial reporting and risk control practices. Therefore, our corporate governance is up to international standard.

PLEDGE OF ASSETS

As at 30 June 2018, save for the assets with restricted ownership rights and rights in use as set out on page 65 of this report, the Group did not have any other material pledge on its assets.

MATERIAL ACQUISITION AND DISPOSAL

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

FOREIGN CURRENCY EXPOSURE

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

CAPITAL COMMITMENTS

As at 30 June 2018, apart from the major commitments set out on page 78 of this report, the Group had no other major capital commitments.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no material contingent liabilities.

EMPLOYEE AND REMUNERATION

The Group had a total of 1,665 employees as at 30 June 2018, and total staff salaries and welfares costs amounted to RMB84,221,759.56 during the Reporting Period. The Group provided substantial remuneration benefits to employees in accordance with market practices, and provided retirement benefits in accordance with the related laws of the PRC.

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

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2018 (30 June 2017: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

For the Reporting Period, the Company had been in compliance with the majority of the code provisions set out in the Corporate Governance Code with the exception of code provision A.1.8.

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

MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

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

REMUNERATION COMMITTEE

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

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

NOMINATION COMMITTEE

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

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

AUDIT COMMITTEE

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

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2018, the interests and short positions of each Director, Supervisor and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be entered in the register pursuant to Section 352 of the SFO, or interests or short positions which are required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange were as follows:

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

Name of Director	Capacity	Number of A Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Mr. Zhang Shi Quan	Interest in a controlled corporation (Note)	343,948,002 (Long position)	60.04%	43.56%
		20,941,473 (Short position)	3.66%	2.65%
	Beneficial owner	26,391,580 (Long position)	4.61%	3.34%

(Note): Mr. Zhang holds 40% interest in the registered capital of Shibao Holding, the Ultimate Holding Company of the Company, which in turn holds 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.

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

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

(Note): Shibao Holding holds 343,948,002 A Shares representing 60.04% of the 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 30 June 2018, the Directors are not aware of any Director, Supervisor and chief executive of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to the Model Code to be notified to the Company and the Hong Kong Stock Exchange.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, so far as is known to the Directors, the following persons (other than the Directors, Supervisors and chief executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Name of Shareholder	Capacity	Number and class of Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Shibao Holding	Beneficial owner (Note 1 and 2)	343,948,002 A Shares (Long position)	60.04%	43.56%
		20,941,473 A Shares (Short position)	3.66%	2.65%
Mr. Zhang	Interest in controlled corporation (Note 1 and 2)	343,948,002 A Shares (Long position)	60.04%	43.56%
		20,941,473 A Shares (Short position)	3.66%	2.65%
	Beneficial owner (Note 2)	26,391,580 A Shares (Long position)	4.61%	3.34%

Note:

- (1) As at 30 June 2018, Shibao Holding held 343,948,002 A Shares of the Company. As Mr. Zhang holds 40% interest in the registered capital of Shibao Holding, Mr. Zhang is deemed to be interested in all of the 343,948,002 A Shares of the Company held by Shibao Holding.
- (2) Mr. Zhang's interest in these 370,339,582 A Shares of the Company, including 343,948,002 A Shares held by Shibao Holding and 26,391,580 A Shares directly held by himself, are also disclosed in the paragraph headed "Disclosure of the Interests and Short Positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations". These 343,948,002 A Shares held by Shibao Holding represent the same interest and therefore duplicate amongst Shibao Holding and Mr. Zhang.

Save as disclosed above, as at 30 June 2018, Directors are not aware of any other person (other than the Directors, Supervisors and chief executive of the Company as disclosed above) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

During the Reporting Period, none of the Company, any of its subsidiaries, its holding company or any subsidiaries of its holding company has entered into any arrangement, allowing Directors of the Company can be benefited from the purchase of the shares or debentures of the Company or any other legal person entities, and none of the Directors, Supervisors and chief executive or their respectively spouse or children under 18 has any right or has exercised any right to subscribe for securities of the Company.

SHARE OPTION SCHEME

As at 30 June 2018, the Company has not implemented any share option scheme.

COMPETING INTERESTS

During the Reporting Period, none of the Directors or their respective associates has an interest in a business which competes or may compete with the business of the Group, or has an interest in a company which may have conflicts of interest with the Group's business.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

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

“A Share(s)”	ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued in China and listed on Shenzhen Stock Exchange, and are subscribed for and traded in RMB
“Articles of Association”	articles of association of the Company
“Audit Committee”	audit committee of the Company
“Beijing Autonics”	Beijing Autonics Technology Co., Ltd., a wholly-owned subsidiary of the Company since 30 November 2016
“Board”	board of Directors of the Company
“China Accounting Standards for Business Enterprises or Accounting Standards for Business Enterprises or CASBE”	financial reporting standards and interpretations for business enterprises issued by the China Accounting Standards Committee of the China Ministry of Finance
“Company or Zhejiang Shibao”	Zhejiang Shibao Company Limited
“Corporate Governance Code or CG Code”	Corporate Governance Code and Corporate Governance Report, Appendix 14 to the Listing Rules of Hong Kong Stock Exchange
“CSRC”	China Securities Regulatory Committee
“Director(s)”	director(s) of the Company
“Erdos Sterling”	Erdos Sterling Steering System Co., Ltd., a wholly-owned subsidiary of Wuhu Sterling
“Group”	the Company and its subsidiaries
“H Share(s)”	ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued overseas and listed on Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars
“Hangzhou New Shibao”	Hangzhou New Shibao Electric Power Steering Co., Ltd., a subsidiary controlled by the Company
“Hangzhou Shibao”	Hangzhou Shibao Auto Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Jilin Shibao”	Jilin Shibao Machinery Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on Hong Kong Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules of Hong Kong Stock Exchange
“Nomination Committee”	nomination committee of the Company

GLOSSARY

“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 2018 to 30 June 2018
“RMB”	Renminbi
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	A Share(s) and/or H Share(s)
“Shareholder(s)”	shareholder(s) of the Company
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange of the PRC
“Shibao Holding or 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