



浙江世寶股份有限公司

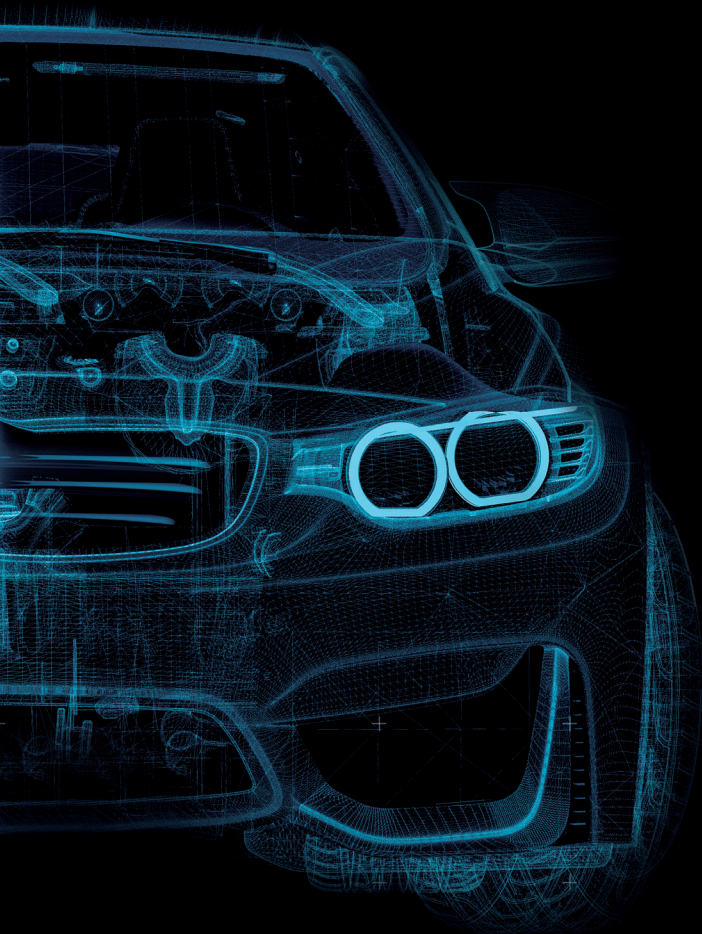
ZHEJIANG SHIBAO COMPANY LIMITED*

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

Stock Code : 1057

Steering the Future

Annual Report 2018

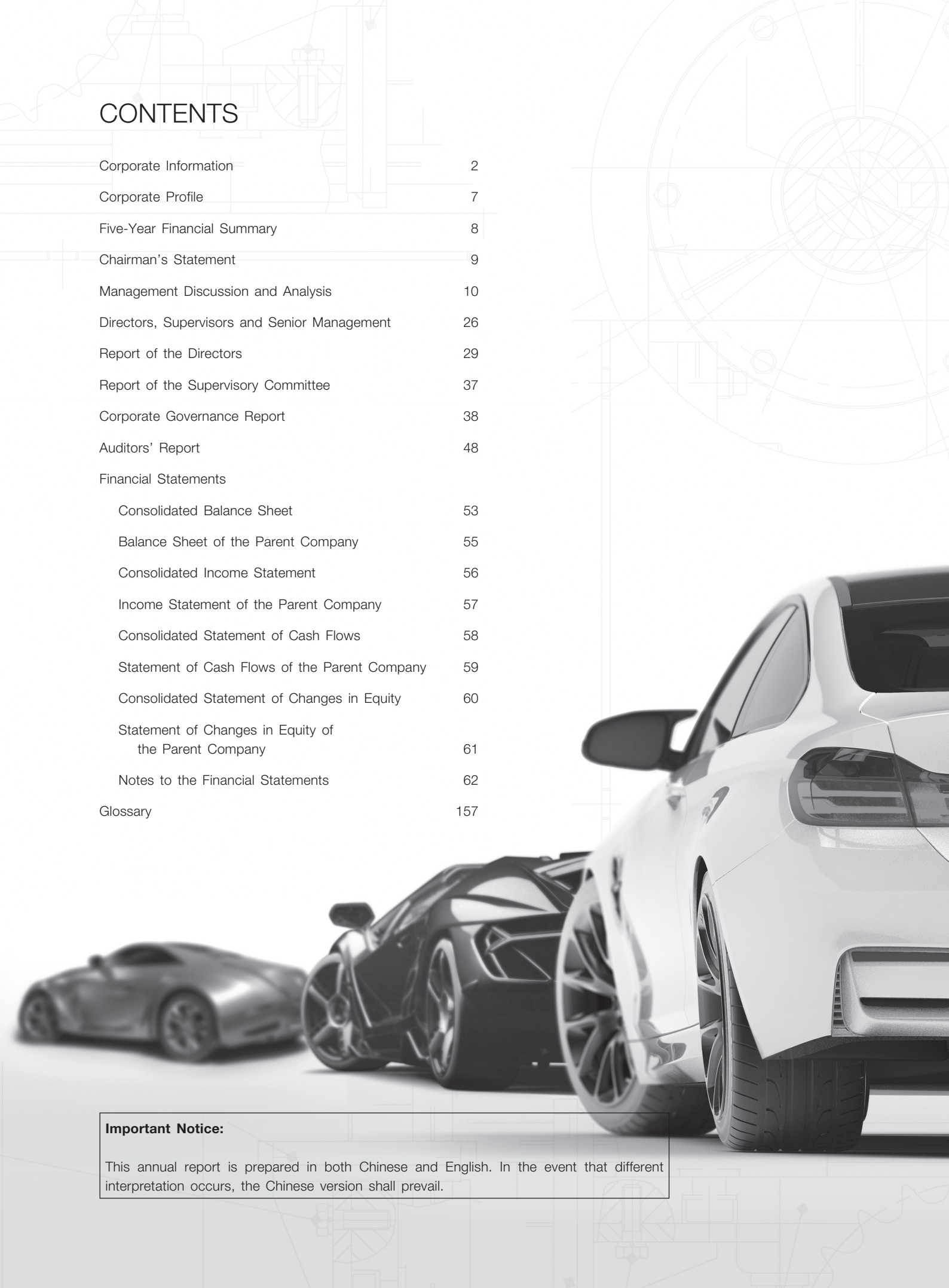


CONTENTS

Corporate Information	2
Corporate Profile	7
Five-Year Financial Summary	8
Chairman's Statement	9
Management Discussion and Analysis	10
Directors, Supervisors and Senior Management	26
Report of the Directors	29
Report of the Supervisory Committee	37
Corporate Governance Report	38
Auditors' Report	48
Financial Statements	
Consolidated Balance Sheet	53
Balance Sheet of the Parent Company	55
Consolidated Income Statement	56
Income Statement of the Parent Company	57
Consolidated Statement of Cash Flows	58
Statement of Cash Flows of the Parent Company	59
Consolidated Statement of Changes in Equity	60
Statement of Changes in Equity of the Parent Company	61
Notes to the Financial Statements	62
Glossary	157

Important Notice:

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



CORPORATE INFORMATION

(English translation for reference only)

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) (<i>Deputy General Manager and Board Secretary</i>) 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. Guo Kong Hui (郭孔輝) Mr. Shum Shing Kei (沈成基) Mr. Lin Yi (林逸)
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

CORPORATE INFORMATION

(English translation for reference only)

Secretary of The Board

Ms. Liu Xiao Ping (劉曉平)

Company Secretary

Ms. Huen Lai Chun (禰麗珍)

Authorised Representatives

Ms. Zhang Lan Jun (張蘭君)

Ms. Huen Lai Chun (禰麗珍)

Registered Office

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

Principal Place of Business in Hong Kong

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

Legal Advisers

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

Auditors

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

CORPORATE INFORMATION

(English translation for reference only)

Principal Bankers

Agricultural Bank of China, Yiwu Branch

– Fotang Sub-branch

85 Jianshe Road, Fotang

Yiwu, Zhejiang Province, China

Bank of China Limited

– Banking department of Siping Sub-branch

No. 488 Yingxiong Avenue

Siping, Jilin Province, China

Bank of China Limited

– Siping Zhongyang Dong Lu Sub-branch

2055 Zhongyang Dong Lu, Tiedong District

Siping, Jilin Province, China

Bank of Communications of China, Wuhu Branch

– Economic and Technology Development Zone Sub-branch

No. 33, Yin Hu Road North

Wuhu Economic and Technology Development Zone

Wuhu, China

China CITIC Bank

– Hangzhou Economic and Technology Development Zone Sub-branch

Building 2, Singapore Hangzhou Technology Zone

6th Avenue

Hangzhou Economic and Technology Development Zone

Hangzhou, Zhejiang Province, China

China Zheshang Bank Co., Ltd.

– Hangzhou Xiasha Sub-branch

No. 226, Shangsha Road

Hangzhou Economic and Technological Development Zone

Hangzhou, Zhejiang Province, China

Erdos Rural Commercial Bank

– Dong Huan Road Sub-branch

Ground floor, Complex Building of Inter-city Bus Station

Dong Huan Road, Dong Sheng District

Erdos, China

Huishang Bank Corporation Limited

– Wuhu Zhongshan South Road Sub-branch

Building 20, Haishang Chuanqi Garden

Zhongshan South Road, Yijiang District

Wuhu, China

Industrial and Commercial Bank of China (Asia) Limited

– Hong Kong Headquarters

33rd Floor ICBC Tower

3 Garden Road

Central

Hong Kong

Industrial and Commercial Bank of China Limited

– Hangzhou Economic and Technological Development Zone Sub-branch

No. 5, Sixth Avenue

Hangzhou Economic and Technological Development Zone

Hangzhou, Zhejiang Province, China

Industrial and Commercial Bank of China, Beijing Branch

– Zi Zhu Yuan Road Sub-branch

No. 10, Zhong Guan Cun South Road Jia

Hai Dian District

Beijing, China

Industrial and Commercial Bank of China, Siping Branch

– Zhongyang Dong Lu Sub-branch

141 Nanyijing Jie

Siping, Jilin Province, China

Industrial and Commercial Bank of China, Yiwu Branch

– Yiwu Sub-branch

128 Huangyuan Road

Yiwu, Zhejiang Province, China

CORPORATE INFORMATION

(English translation for reference only)

Hong Kong H Share Registrar and Transfer Office

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

Contact Information

Corporate communication/Investor relations

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

Company secretary services

Ms. Huen Lai Chun (禰麗珍) *Company Secretary*
Room 1204
C C Wu Building
302–308 Hennessy Road
Wanchai
Hong Kong
Tel.: +852 3104 8118
Fax: +852 3104 8119
Email: ir@shibaogroup.com

Place of Listing

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

Website

www.zjshibao.com

1. COMPANY PROFILE

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

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

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

2. ANALYSIS ON CORE COMPETITIVENESS

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

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

FIVE-YEAR FINANCIAL SUMMARY

(English translation for reference only)

A summary of the published results, assets and liabilities of the Group for the past five years ended 31 December 2018 are set out below. The relevant information were prepared on a consolidated basis and based on China Accounting Standards for Business Enterprises.

RESULTS

	For the year ended 31 December				
	2018 RMB0,000	2017 RMB0,000	2016 RMB0,000	2015 RMB0,000	2014 RMB0,000
Revenue	113,310	115,426	113,640	83,772	81,124
Total profit	189	3,232	8,059	5,987	4,216
Net profit	197	2,673	6,599	5,194	3,648
Minority interests	-531	-592	250	-160	-690
Net profits attributable to equity holders of the parent	728	3,266	6,349	5,354	4,337
Basic earnings per share (RMB)	0.0092	0.0414	0.0804 (Note)	0.17	0.16
Diluted earnings per share (RMB)	0.0092	0.0414	0.0804 (Note)	0.17	0.16

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

ASSETS AND LIABILITIES

	As at 31 December				
	2018 RMB0,000	2017 RMB0,000	2016 RMB0,000	2015 RMB0,000	2014 RMB0,000
Non-current assets	92,104	86,017	79,511	69,321	67,495
Current assets	112,404	124,425	127,963	119,259	142,612
Current liabilities	50,040	55,439	52,661	39,108	62,089
Net current assets	62,364	68,986	75,302	80,151	80,524
Equity attributable to equity holders of the parent	147,855	147,458	147,351	144,258	142,063
Total liabilities and equity	204,508	210,442	207,474	188,580	210,107

CHAIRMAN'S STATEMENT

(English translation for reference only)

I would like to present on behalf of the Board the report of the audited results of the Group for the year ended 31 December 2018.

Zhejiang Shibao commits itself to improving safety and comfortability in driving. The Company endeavors to become a supplier to provide global leading automotive groups with safe, intelligent, energy-saving and lightweight automotive steering system and raise the R&D and production capability of steering system and key components for each series of automobile model to international standard. Meanwhile, the Company is tapping into key automotive components in relation to integration modulation of steering system. The Company's strategic goal is to provide intelligent driving solutions and products to global leading automotive groups.

During the Reporting Period, due to the effect of fall back of the growth rate of domestic automotive industry and the export business of the Company underperformed the expectation, the Company recorded a revenue of 1,133,097,729.85, representing a decrease of 1.83% as compared with last year. During the Reporting Period, the gross profit of the Company's main business was RMB184,559,089.23, representing a decrease of RMB9,776,486.06 as compared with last year; the gross profit margin of the Company's main business was 16.62% (2017: 17.07%). The decrease in gross profit margin of the Company was mainly due to the increase in the cost of raw materials procurement, the upgrading of products, the large investment in new technologies and new products, the fact that the market has not yet matured, and the benefits have not yet appeared.

China's economy shifted from a rapid growth to high-quality development, and the transformation and upgrade of the automobile industry was accelerated. In 2018, the Company cooperated with traditional and new automobile manufacturers, large technology companies and otherwise in intelligent driving and self-driving, and provided intelligent steering technology and product support. The electric power steering system products of the Company was applied in logistics vehicles in batches for the first time. The hydraulic power assisted recirculation ball steering gears of the Company has passed the qualified supplier review by SCANIA and MAN Truck & Bus AG (MAN), both world-famous heavy truck manufacturers. In 2019, the automobile industry will still face greater pressure, and considering the significant decrease in the profitability of the Company at present, the Company will adopt more cautious investment strategies, properly slow down the construction of new production lines, adjust and reconstruct old production lines, accelerate the development of new technology, the development and trial production of new products, and properly solve the contradiction between survival and development, and make arrangements for future development.

Zhang Shi Quan

Chairman

Hangzhou, Zhejiang, the PRC
22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

REVIEW OF CHINA AUTOMOBILE INDUSTRY

In 2018, production and sales volume of China automobile industry were 27,809,000 units and 28,081,000 units respectively, representing a decrease of 4.20% and 2.80% respectively as compared with last year. Production and sales of passenger cars were 23,529,000 units and 23,710,000 units respectively, representing a decrease of 5.20% and 4.10% respectively as compared with last year. Among these, sales volume of China-brand passenger cars was 9,980,000 units, representing a decrease of 8.00% as compared with last year. Production and sales volume of new energy cars were 1,270,000 units and 1,256,000 units respectively, representing an increase of 59.90% and 61.70% respectively as compared with last year. Production and sales of commercial vehicles were 4,280,000 units and 4,371,000 units respectively, representing an increase of 1.70% and 5.10% respectively as compared with last year. Among commercial vehicles, production and sales volume of buses decreased by 7.00% and 8.00% respectively as compared with last year; production and sales volume of trucks increased by 2.90% and 6.90% respectively as compared with last year. The top ten automaker groups in China sold 25,036,000 units of automobiles, representing a decrease of 2.10% as compared with last year. Their sales represented 89.20% of the total sales of the automobile industry, representing an increase of 0.6 percentage point as compared with last year.

ANALYSIS OF MAIN BUSINESS

1) Overview

During the Reporting Period, due to the effect of decrease in domestic production and sales of automotive and the intensification of market competition, the Company achieved a revenue of approximately RMB1,133,097,729.85, representing a decrease of 1.83% as compared with last year.

During the Reporting Period, the gross profit of the Company's main business was RMB184,559,089.23, representing a decrease of RMB9,776,486.06 as compared with last year; the gross profit margin of the Company's main business was 16.62% (2017: 17.07%). The decrease in gross profit margin of the Company was mainly due to the increase in the cost of raw materials procurement, the upgrading of products, the large investment in new technologies and new products, the fact that the market has not yet matured, and the benefits have not yet appeared.

During the Reporting Period, the Company's selling expenses was RMB78,345,952.20, representing an increase of 10.170% as compared with last year. The increase in selling expenses of the Company was mainly due to the increase in transportation costs and warranty expenses.

During the Reporting Period, the Company's general and administrative expenses were RMB72,020,750.48, representing an increase of 10.55% as compared with last year. The increase in administrative expenses of the Company was mainly due to the increase in labour costs and the increase in service fees paid to external professional organizations.

During the Reporting Period, the research and development expenses of the Company was RMB66,456,611.17, representing an increase of 39.41% as compared with last year, mainly due to significantly greater investment of human resource, materials, facilities and otherwise by the Company as a result of a significant increase in the development activities of new technologies and new products. The research and development expenses of the Company were mainly used for safety, intelligent, energy-saving and lightweight technology research of the automobile steering system to maintain the competitive edge of the sustainable development of the Company.

During the Reporting Period, the Company's financial expenses was RMB-446,912.58 (2017: RMB-519,681.98).

During the Reporting Period, the Company's other gains amounted to RMB19,967,062.85, which is government grants. The investment gains amounted to RMB4,275,660.37, representing a decrease of 46.39% as compared with last year, which was mainly due to the decrease in purchase of bank wealth management products leading to the decrease in relevant gains. Gains from disposal of assets were RMB11,896,367.95, representing an increase of 1,824.16% as compared with last year, mainly due to the acquisition by the government of the premises of the Company located in Fotang Town, Yiwu City at the consideration of RMB12,043,061.00, which was recorded in gains from disposal of assets.

During the Reporting Period, the Company's income tax expenses amounted to RMB-73,624.49, representing a decrease of 101.32% as compared with last year, mainly due to the significant decrease in total profit.

In view of the above, the Company recorded a net profit attributable to shareholders of the listed company of RMB7,278,368.34, representing a decrease of 77.71% as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

2) Revenue and Cost

(1) Composition of Revenue

Unit: RMB

	2018		2017		Change
	Amount	Proportion to revenue	Amount	Proportion to revenue	
Total Revenue	1,133,097,729.85	100%	1,154,256,267.96	100%	-1.83%
By industry					
Manufacture of automotive components and parts	1,110,658,761.08	98.02%	1,138,328,762.71	98.62%	-2.43%
Others	22,438,968.77	1.98%	15,927,505.25	1.38%	40.88%
By products					
Steering system and parts	1,068,970,565.77	94.34%	1,086,351,867.97	94.12%	-1.60%
Parts and others	41,688,195.31	3.68%	51,976,894.74	4.50%	-19.79%
Others	22,438,968.77	1.98%	15,927,505.25	1.38%	40.88%

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

Unit: RMB

	Revenue	Operating costs	Gross profit margin	Change of revenue over last year	Change of operating costs over last year	Change of gross profit margin
						over last year
By industry						
Manufacture of automotive components and parts	1,110,658,761.08	926,099,671.85	16.62%	-2.43%	-1.90%	-0.45%
By products						
Steering system and parts	1,068,970,565.77	890,018,050.81	16.74%	-1.60%	-1.22%	-0.32%

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

(3) Details of production quantity, sales volume and inventory level of the Company Unit: RMB

Industry classification	Projects	Unit	2018	2017	Change
Manufacture of automotive components and parts	Sales volume	Unit/Piece	2,081,171	2,212,938	-5.95%
	Production quantity	Unit/Piece	2,063,234	2,271,130	-9.15%
	Inventory level	Unit/Piece	274,537	292,474	-6.13%

(4) Composition of operating costs Unit: RMB

Product classification	Item	2018		2017		Change
		Amount	Proportion to operating costs	Amount	Proportion to operating costs	
Steering system and parts	Raw materials	685,077,275.22	76.97%	652,858,279.77	72.46%	4.94%
	Labour costs	51,104,838.68	5.74%	64,233,270.59	7.13%	-20.44%
	Manufacturing expenses	153,835,936.91	17.29%	183,891,193.96	20.41%	-16.34%

3) Research and Development Investments

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

	2018	2017	Change
Number of R&D staff (person)	293	273	7.33%
Proportion of R&D staff	18.65%	14.48%	4.17%
Amount of R&D investments (Yuan)	66,456,611.17	47,668,732.19	39.41%
Share of R&D investments in operating revenue	5.87%	4.13%	1.74%
Amount of capitalization of R&D investments (Yuan)	-	-	-
Share of capitalized R&D investment in R&D investments	-	-	-

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

4) Cash Flows

Unit: RMB

Item	2018	2017	Change
Sub-total of cash inflow from operating activities	487,701,921.83	519,469,792.29	-6.12%
Sub-total of cash outflow from operating activities	500,551,565.13	542,324,990.34	-7.70%
Net cash flows from operating activities	-12,849,643.30	-22,855,198.05	43.78%
Sub-total of cash inflow from investing activities	423,242,663.37	1,563,314,215.93	-72.93%
Sub-total of cash outflow from investing activities	469,055,631.50	1,466,163,055.99	-68.01%
Net cash flows from investing activities	-45,812,968.13	97,151,159.94	-147.16%
Sub-total of cash inflow from financing activities	238,400,000.00	132,000,000.00	80.61%
Sub-total of cash outflow from financing activities	219,862,590.25	163,279,895.87	34.65%
Net cash flows from financing activities	18,537,409.75	-31,279,895.87	159.26%
Net increase in cash and cash equivalents	-40,132,528.00	43,095,131.05	-193.13%

During the Reporting Period, net cash flow from operating activities increased by 43.78% as compared with last year, mainly due to the decrease in tax expense; net cash flow from investing activities decreased by 147.16% as compared with last year, mainly due to the decrease in cash inflows from redemption of bank wealth management products and increase in cash payment for purchase of fixed assets; net cash flow from financing activities increased by 159.26% as compared with last year, mainly due to the increase in bank borrowings and decrease in cash distribution. In view of above, during the reporting period, net increase in cash and cash equivalents decreased by 193.13% as compared with last year.

For the difference between net cash flows from operating activities and the net profit for the year during the Reporting Period, please refer to "Supplemental information on the statement of cash flows" set out on pages 123 and 124 in the annual report.

ANALYSIS OF ASSETS AND LIABILITIES

1) Significant changes in composition of assets

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

Unit: RMB

	2018		2017		Change
	Amount	Proportion to total assets	Amount	Proportion to total assets	
Cash on hand and at bank	129,531,349.92	6.33%	184,342,739.55	8.76%	-2.43%
Notes receivable	142,065,764.04	6.95%	114,302,216.24	5.43%	1.52%
Accounts receivable	468,614,553.04	22.91%	512,761,243.71	24.37%	-1.46%
Inventories	296,617,482.37	14.50%	279,634,663.89	13.29%	1.21%
Fixed assets	648,472,200.05	31.71%	592,681,978.24	28.16%	3.55%
Construction in progress	101,847,457.97	4.98%	119,801,083.84	5.69%	-0.71%

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

Except for the "Assets with restrictions in ownership or use rights" set out on page 125 in the annual report, the Company did not have other restrictions regarding its assets.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

3) Financial Resources and Capital Structure

At the end of the Reporting Period, the amount of total loans and borrowings was RMB29,080,000.00 (31 December 2017: RMB11,080,000.00). Total loans and borrowings increased by RMB18,000,000.00 when compared with the beginning of the year, mainly due to the increase in guaranteed loans. RMB9,080,000.00 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 38,200,000 RMB ordinary shares (A Shares) by way of non-public issue in 2014 at issue price of RMB18.46 per share, which raised a gross proceeds of RMB705,172,000.00 and a net proceeds of RMB658,162,877.04 after deducting the related costs. On 11 December 2014, the proceeds were credited into the regulatory proceeds account of the Company. The amount of the proceeds actually utilized by the Company in 2018 was RMB109,548,122.46, and RMB230,000,000.00 was used for temporary supplement of working capital. As at 31 December 2018, balance of proceeds amounted to RMB88,898,083.86, which included the net accumulated amount of interests received from bank deposits and gains from short-term bank wealth management products less bank handling fees and others.

The capital structure of the Company consists of borrowings, bank deposits and equity attributable to shareholders of the Company. The management determines the capital structure by considering the cost of capital and the risks associated with various types of capital. The Company will balance its overall capital structure through the payment of dividends, new share issues or repayment of bank borrowings.

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. At the end of the Reporting Period, the Company's gearing ratio was -6.52% (2017: -11.15%).

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

ANALYSIS OF INVESTMENT

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

(1) General use of proceeds

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

The proceeds utilized by the Company amounted to RMB266,686,240.32 in prior years; bank deposit interest received in prior years, net of handling fees and others, amounted to RMB30,335,477.86; in 2018, the actual utilized proceeds amounted to RMB109,548,122.46; temporary supplement to liquidity was RMB230,000,000.00; in 2018, bank deposit interest and short-term bank wealth management product income received, net of bank handling fee and others, amounted to RMB6,634,091.74. The accumulated utilized proceeds amounted to RMB376,234,362.78. The accumulated bank deposit interest and short-term bank wealth management product income, net of bank handling fee and others, amounted to RMB36,969,569.60.

As at 31 December 2018, the balance of the proceeds account amounted to RMB88,898,083.86 (including the accumulated bank deposit interest and short-term bank wealth management product income received, net of bank handling fee and others). Among them, the balance of the designated proceeds account is RMB12,898,083.86, the balance of the fixed-term account is RMB16,000,000.00 and the balance of short-term bank wealth management product is RMB60,000,000.00.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

(2) Projects undertaken with the raised proceeds

unit: ten thousand

Undertaken investment project(s) and use of over-raised proceeds	Changes in project (Partial change included)	Total investment undertaken with raised proceeds	Total investment after adjustment ⁽¹⁾	Invested amount during the reporting period	Invested amount as of the end of the period ⁽²⁾	Investment progress as of the end of the period ^{(3)=(2)/(1)}	Date of project getting ready for its intended use	Achieved results during the reporting period	Achieve the intended results or not	Significant changes in project feasibility
Undertaken investment project(s)										
The increase of production of power automotive steering gears project	No	12,800	12,800	142.81	13,065.82	102.08	2016.12.31	386.54	No	No
The precious casting and processing of automotive components project	No	20,000	20,000	3,422.69	8,126.02	40.63	2020.12.31	N/A	Note	No
The research and development, examination and inspection and trial production centre of automotive steering gear system project	No	4,000	4,000	170.52	4,203.20	105.08	2016.12.31	N/A	Note	No
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	No	34,000	29,016.29	7,218.79	12,228.40	42.14	2020.12.31	Note	Note	No
Sub-total of undertaken investment project(s)	-	70,800	65,816.29	10,954.81	37,623.44	-	-	-	-	-
Total	-	70,800	65,816.29	10,954.81	37,623.44	-	-	-	-	-

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

Condition and reason of lagging behind schedule or not achieving expected return	“The increase of production of power automotive steering gears project” relates to the 2012 initial public offering and the 2014 non-public issuance fund raising project. The initial public offering fund-raising project was expected to achieve a net profit of RMB70.3524 million. Due to influences such as market change and technology upgrade, 2014 non-public issuance project was expected to achieve an adjusted net profit of RMB57.0051 million. The net profit of 2018 amounted to approximately RMB3.8654 million, mainly due to the decrease in sales of automobiles, the worse-than-expected export business performance and the decrease in sales prices of products, which led to a drop in gross profit.
Illustration on the significant changes in project feasibility	Nil.
Amount, use and update on use of over-raised proceeds	Nil.
Change in location of fund-raising investment projects	Nil.
Adjustment on the implementation of fund-raising investment projects	Nil.
Preliminary capital and replacement of fund-raising investment projects	As of 31 December 2014, the Company had injected the preliminary capital of RMB49.7674 million from its own fund into the fund-raising investment projects. Upon review and approval in the 22nd meeting of the fourth session of the Board of the Company held on 6 February 2015, the Company used raised proceeds to replace it on 12 February 2015 and 23 March 2015 respectively.
Tentative application of idle proceeds as working capital	<p>On 14 June 2017, the 25th meeting of the fifth session of the Board of the Company considered and approved the Resolution on Utilisation of Idle Proceeds to Temporarily Supplement Working Capital (關於使用部分閒置募集資金暫時補充流動資金的議案), allowing the Company to use the idle proceeds of not exceeding RMB200 million (including RMB200 million) to tentatively apply as working capital for a term of 12 months commencing from the date of approval by the Board. The Company effectively utilised RMB200 million to tentatively apply as working capital. At 13 June 2018, the balance was fully transferred back to the designated proceeds account.</p> <p>On 14 June 2018, the 36th meeting of the fifth session of the Board of the Company considered and approved the Resolution on Utilisation of Idle Proceeds to Temporarily Supplement Working Capital (關於使用部分閒置募集資金暫時補充流動資金的議案), allowing the Company to use the idle proceeds of not exceeding RMB250 million (including RMB250 million) to tentatively apply as working capital for a term of 12 months commencing from the date of approval by the Board. The Company effectively utilised RMB230 million to tentatively apply as working capital. As of 31 December 2018, the balance was yet to be transferred back to the designated proceeds account.</p>

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

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

Use and status of unutilised proceeds

The sixth session of the Board considered and passed in writing, the Resolution on Use of Certain Idle Proceeds for Cash Management on 28 November 2018, allowing the Company to use idle proceeds of up to RMB90 million to purchase capital protected investment products of commercial banks for cash management purposes, for a period of up to 12 months following the approval of the Board, during which the funds may be used on a revolving basis.

As at 31 December 2018, the proceeds of RMB88.8981 million unutilised by the Company comprised RMB28.8981 million deposited in the designated proceeds account and the term deposit account and RMB60 million used for the purchase of bank short-term products; and the amount of RMB230 million was used to temporarily replenish the working capital. The proceeds will continue to be used for the construction of projects for investment of proceeds.

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

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

(3) Extension of projects for investment of certain proceeds

The “precious casting and processing of automotive components project” and the “annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project” were originally expected to be ready for their intended use by 31 December 2016; and were extended and would be ready for their intended use by 31 December 2018, as considered and approved at the nineteenth meeting of the fifth session of the Board on 31 December 2016; and were extended and would be ready for their intended use by 31 December 2020, as considered and approved at the fourth meeting of the sixth session of the Board on 31 December 2018.

1. The main products for the “precious casting and processing of automotive components project” are precision castings of automotive components, which can serve as corollary parts for internal use and meet external sale demands. The main reasons for the extension of the project:

(1) There was a decline in the growth rate of the industry, as well as an acquisition of new customers of precision castings and a capacity utilization rate below expectation. There was a further significant decline in the vehicle production and sales volumes in 2018, as compared with 2017. The fluctuations in the vehicle market directly affected the vehicle parts market. Affected by a decline in the growth rate of the external market, the Company failed to achieve a material breakthrough in acquisition of new external customers of precision castings, while the production and sales volumes of knuckles which involved the utilization of the capacity had remained low in the past five years, resulting in a certain gap in full utilization of the precision casting production capacity. Based on the above decline in the growth rate of the industry, as well as the acquisition of new customers of precision castings and capacity utilization rate below expectation, the Company was cautious in the use of proceeds and slowed down the investment in the project, based on the principle of effective use of proceeds.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

- (2) There was an overall decline in results of the Company. Since 2017, there had been a significant decline in the gross profit margin of the Company, as well as a decrease in the net profit level and net cash flows from operating activities. Since a significant investment in the project as originally planned was not beneficial to the improvement in results of the Company and safeguarding of interests of shareholders of the Company, the Company slowed down the actual investment in the “precious casting and processing of automotive components project”, considering the operational stability.

Based on the above, Jilin Shibao Machinery Manufacturing Co., Ltd. slowed down the implementation of the above projects for investment of proceeds, which correspondingly affected the construction progress of the project, which was not ready for its intended use as planned, and resultantly the construction period of the “precious casting and processing of automotive components project” was extended.

2. Main reasons for the extension of the “annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project”:

- (1) There was a decline in the growth rate of the industry and a utilization rate of the EPS production capacity below expectation. In 2017, there was a significant decline in the growth rates of the vehicle (especially passenger vehicle) production and sales volumes in China. Affected by a decline in the growth rate of the external market, there was a gap in full utilization of the capacity, with the capacity utilization rate of 67.65%, in spite of 25.26% and 22.93% increases respectively in EPS production and sales volumes of the Company in 2017, as compared with 2016. The “annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project” is a capacity expansion project for EPS of passenger vehicles and its parts. Considering the decline in the growth rate of the industry and the utilization rate of the EPS production capacity below expectation, the Company was cautious in the use of proceeds and properly slowed down the investment in the project, based on the principle of effective use of proceeds.
- (2) There was an overall decline in results of the Company. Since 2017, there had been a significant decline in the gross profit margin of the Company, as well as a decrease in the net profit level and net cash flows from operating activities. Since a significant investment in the project as originally planned was not beneficial to the improvement in results of the Company and safeguarding of interests of shareholders of the Company, the Company slowed down the actual investment in the “annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project”, considering the operational stability.

Based on the above, the Company slowed down the implementation of the above projects for investment of proceeds, which correspondingly affected the construction progress of the project, which was not ready for its intended use as planned, and resultantly the construction period of the “annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project” was extended.

Since the fourth quarter of 2017, there had been a gradual increase in the EPS sales of the Company. In 2018, there was a significant increase in sales of EPS of the Company, as compared with the corresponding period of last year. In the fourth quarter of 2017, the Company started to accelerate the purchase of equipment for the “annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project”. However, changes in the design for civil construction affected the overall progress of investment in the project.

For details of extension of projects for investment of proceeds, refer to the Announcement of Extension of Projects for Investment of Certain Proceeds published by the Company on Securities Times and www.cninfo.com.cn (巨潮資訊網) on 24 December 2018.

(4) Changes in use of proceeds

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

OUTLOOK INTO THE FUTURE DEVELOPMENT OF THE COMPANY

1) Industry landscape and trend

China's economy shifted from a rapid growth to high-quality development, and the transformation and upgrade of the automobile industry was accelerated. In 2018, affected by policy factors and macro economy, China's vehicle production and sales volumes declined year-on-year, while there was a continued rapid growth of new energy vehicles. In the short term, there were greater pressure, due to the cancellation of the preferential policy for purchase tax, slow-down of the macro economic growth, trade frictions between China and the United States, consumer confidence and other factors. At present, China's automobile industry is still in a popularization period, so there is larger room for growth. The automobile industry has been in a growth period of brand improvement and high-quality development.

2) Development strategy of the Company

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

3) Business plan

During the reporting period, the Company's operating results are within the Company's publicly disclosed performance forecasts. During the reporting period, electric power steering system products of the Company was continued to be used in passenger vehicles to a larger extent and applied in logistics vehicles in batches for the first time, thus the Company achieved record production and sales volumes of such products. During the reporting period, the Company cooperated with traditional and new automobile manufacturers, large technology companies and otherwise in intelligent driving and self-driving, and provided intelligent steering technology and product support.

In 2018, the Company actively promoted its hydraulic power assisted recirculation ball steering gears for commercial vehicles to European and American high-end commercial vehicle manufacturers, and achieved better results. The Company passed the qualified supplier review by SCANIA and MAN Truck & Bus AG (MAN), both world-famous heavy truck manufacturers. The business of the Company with Daimler Group was expanded from Germany to North America. The Company expects the above overseas business development will contribute to the placing of orders with the Company to support future development in 2019.

In 2019, the automobile industry will still face greater pressure, and considering the significant decrease in the profitability of the Company at present, the Company will adopt more cautious investment strategies, properly slow down the construction of new production lines, adjust and reconstruct old production lines, accelerate the development of new technology, the development and trial production of new products, and properly solve the contradiction between survival and development, and make arrangements for future development.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

4) Forecast on operating results between January and March 2019

Net profit between January and March 2019 (RMB ten thousands) -1,500.00 to -750.00

Net profit attributable to shareholders of the listed issuer between January and March 2018 (RMB ten thousands) -554.62

Illustrations on reasons attributable to the movements in results

The Company's products are in a period of electronization and intelligentization technology innovation, upgrade and update, in which the profitability of old products decreases, while considerable investment is required for new products, which has not achieved better profitability.

5) Potential Risks

1. Risks relating to industry fluctuations

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

2. Risks relating to product quality

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

3. Risk relating to technical innovation

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

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

4. Risk relating to downward prices

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

5. Risk relating to price fluctuation of raw materials

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

6. Risk relating to higher proportion of accounts receivable

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

7. Risks relating to overseas market expansion

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

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

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

9. Risk relating to the stock market

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

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

MATERIAL ACQUISITION AND DISPOSAL

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

IMPORTANT EVENTS

1. Profit distribution for ordinary Shares and conversion of capital reserve into share capital

1. Formulation, implementation or adjustment of policies of profit distribution for ordinary shares, especially cash dividend policies, during the Reporting Period

The Company distributes profits in accordance with the Articles of Association. In accordance with the Articles of Association, the Board shall, in comprehensive consideration of features of the industry in which the Company operates, the development stage, its own business model, profitability, whether there is any significant expenditure arrangements and otherwise, distinguish conditions and propose differentiated cash dividend distribution policies according to the procedures as required under the Articles of Association. The Company's profit distribution shall comply with the principle of paying attention to reasonable investment return for shareholders while taking into account the Company's sustainable development. The Company's profit distribution policy shall be kept continuous and stable, and comply with relevant laws and regulations.

If there are distributable profits of the Company, the Company shall pay dividends once a year in principle as its profit distribution policy, and give priority to cash dividends. Considering that the Company's annual results of operations have not been finalized, the amount of distributable profits by law is uncertain, the Company shall not pay interim cash dividend in principle. If the Board does not make an annual profit distribution proposal, the reasons for not distributing profits shall be disclosed in the annual report, which shall contain the independent opinions of independent Directors. The Company's profit distribution shall not exceed the total distributable profits. The distribution of cash dividends in one accounting year shall be not less than 20% of the profits distributable during the year.

If the Company needs to adjust the profit distribution policies according to production and operation, investment planning, long-term development and otherwise, the adjusted profit distribution policies shall not violate relevant requirements of CSRC and securities exchanges. The motion on adjustment of profit distribution policies shall be submitted first to independent Directors and the Supervisory Committee for advice firstly, and with approval of the Board, to the general meeting for approval. Any adjustment to cash dividend policies shall be subject to the approval by shareholders present and holding over two thirds (2/3) of the voting rights at the general meeting.

During the Reporting Period, there was no adjustment to the profit distribution policies of the Company.

Cash dividend policy	
Was it in compliance with the requirements of the Company's Articles of Association and the resolution of the general meeting:	Yes
Were the dividend distribution criteria and proportion well-defined and clear:	Yes
Were related decision-making processes and mechanisms complete:	Yes
Did independent Directors fulfil their duties and play their roles:	Yes
Were the minority Shareholders given opportunities to sufficiently voice their opinions and make requests and were their legal interests fully protected:	Yes
Were conditions and procedures legal and transparent in the case of adjustments or changes to the cash dividend policy:	N/A

2. The Company's schemes (plans) of profit distribution for ordinary Shares and conversion of capital reserve into share capital for the past 3 years (including the Reporting Period)

As considered and approved at the meeting of the Board held on 24 March 2017 and the 2016 annual general meeting held on 30 June 2017, a cash dividend of RMB1.00 per 10 shares (inclusive of tax) amounting to a total dividend of RMB31,585,785.50 was paid to all shareholders, based on a total of 315,857,855 shares of RMB1

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

each as at the end of 2016. Such dividend was paid in mid-2017 and reflected in the 2017 financial statements. Meanwhile, the conversion of capital reserve into share capital on the basis of 15 shares for every 10 shares held by Shareholders was completed on 31 July 2017, with a total of 473,786,782 shares converted, and the total share capital of the Company upon the completion of the conversion was 789,644,637 shares.

As considered and approved at the meeting of the Board held on 23 March 2018 and the 2017 annual general meeting held on 29 June 2018, no cash dividend payment, bonus issue or conversion of capital reserve into share capital would be made.

As considered and approved at the meeting of the Board held on 22 March 2019, no cash dividend payment, bonus issue or conversion of capital reserve into share capital was proposed. The profit distribution plan is pending submission to the 2018 annual general meeting for consideration and approval.

3. Table of cash dividend distribution of the Company for ordinary Shares for the past three years (including the Reporting Period) Unit: RMB

Year of distribution	Cash dividend amount (inclusive of tax)	Net profit attributable to the holders of the Company's ordinary shares in consolidated statements for the year of distribution	% of the net profit attributable to the holders of the Company's ordinary shares in consolidated statements
2018	0.00	7,278,368.34	—
2017	0.00	32,656,134.48	—
2016	31,585,785.50	63,487,549.38	49.75%

2. **No cash dividend distribution plans were proposed while the Company was profitable and there were profits of the parent company distributable to Shareholders during the Reporting Period**

1. Reasons for not distributing profits

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

In light of the characteristics of the automobile industry, the Company usually grants its customers a credit period ranging from 3 to 6 months. Meanwhile, as the steering assembly are customized development products with long preliminary development and experiment cycles, a lot of start-up expenses will be incurred. These products have a higher percentage of special parts, which make stocking complicated. This requires the Company to have sufficient working capitals for daily operation.

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

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

In 2018, affected by the decline in vehicle production and sales volumes in China, increased market competition, product technology update and increased investment of the Company, and other comprehensive factors, the Company's net profit attributable to shareholders of the listed company was approximately RMB7,278,400, representing a significant decrease of 77.71% as compared with last year.

Therefore, in comprehensive consideration of the characteristics of industry where the Company operates, the Company's own operation conditions and development stage, the Board of the Company is of the opinion that the Company needs funds to maintain daily operations of the Company, and a large amount of funds for the development of new technologies and new products, so it is necessary for the Company to retain profits for daily operations as well as development. The Board of the Company believes that realizing the sustainable development of the Company is conducive to safeguarding the interests of all shareholders of the Company, especially minority shareholders. Thus, the Board of the Company proposed not to declare cash dividend, issue bonus shares or increase capital by transferring from reserves for 2018.

2. Use and using plan of the undistributed profits of the Company

The undistributed profits of the Company in 2018 will roll over to the following year to fulfil the Company's requirement for general working capital and future profit distribution. In the future, the Company will attach great importance to providing returns to its shareholders by ways of cash dividends as always, making reference to various factors relating to profit distribution and from a prospective which is beneficial to the development of the Company and generating returns to shareholders, and actively implement its profit distribution policies in strict compliance with relevant laws and regulations and the Articles of Association of the Company, thus sharing the results of the Company's development with investors.

FOREIGN CURRENCY EXPOSURE

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

CAPITAL COMMITMENTS

As at 31 December 2018, apart from the commitments set out on page 143 in the annual report, the Group has no other major capital commitments.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group has no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 1,571 employees as at 31 December 2018 (2017: 1,886). For the Reporting Period, total staff salaries and welfares costs amounted to RMB162,711,817.55 (2017: RMB156,733,693.93). The Group provided substantial remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC. Details on the standard of determining the remuneration of directors, supervisors and senior management of the Company are set out on page 33 in the annual report.

Our Company and its subsidiaries make contributions to municipal government retirement scheme for their respective qualified employees in the PRC. According to applicable PRC laws, both employers and employees are required to make contributions to the scheme at the specified rates pursuant to the rules of the scheme. The only obligation of our Company and its subsidiaries with respect to the scheme is to make the required contributions. The contributions payable under the scheme were properly accrued for the year ended 31 December 2018.

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(English translation for reference only)

EXECUTIVE DIRECTORS

Mr. Zhang Bao Yi (張寶義), aged 46, is a vice Chairman and the General Manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree. Since 12 June 2004, he has been appointed as a vice Chairman and since 28 December 2017, he has been appointed as the General Manager of the Company. From 12 June 2004 to 27 December 2017, Mr. Zhang was the deputy general manager of the Company. Mr. Zhang was granted the title of "Labour Model of Yiwu City" (義烏市勞動模範) in 2004. Mr. Zhang's current term was effective from 29 June 2018 and is valid till 29 June 2021. Mr. Zhang is also the chairman of Hangzhou New Shibao and Beijing Autonics; a director of Wuhu Sterling; and the general manager of Hangzhou Shibao. The relationship between Mr. Zhang Bao Yi and the Directors and controlling shareholder of the Company is disclosed in the following paragraph about Mr. Zhang Shi Quan.

Mr. Tang Hao Han (湯浩瀚), aged 51, is a vice Chairman and deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a doctor's degree. Since 12 June 2004, he has been appointed as vice Chairman and deputy general manager of the Company. Mr. Tang was awarded the "Outstanding Entrepreneur of Jilin Province" (吉林省優秀企業家), "Labour Model of Jilin Province" (吉林省勞動模範), "National Outstanding Youth Entrepreneur Leader" (全國青年興業領頭人), "Outstanding Entrepreneur of National Privately-Owned Technological Enterprises" (全國優秀民營科技企業家) and "National Labour Day Medal" (國家「五一」勞動獎章). Mr. Tang's current term was effective from 29 June 2018 and is valid till 29 June 2021. Mr. Tang is also the chairman of Jilin Shibao. The relationship between Mr. Tang Hao Han and the Directors and controlling shareholder of the Company is disclosed in the following paragraph about Mr. Zhang Shi Quan.

Ms. Zhang Lan Jun (張蘭君), aged 44, is the finance Director of the Company. She is a Chinese national with no permanent residence abroad. She has a master's degree. Since 12 June 2004, she has been appointed as the finance Director of the Company. Ms. Zhang has over 10 years of experiences in finance and accounting. Ms. Zhang's current term was effective from 29 June 2018 and is valid till 29 June 2021. Ms. Zhang is also a finance manager of Hangzhou Shibao. The relationship between Ms. Zhang Lan Jun and the Directors and controlling shareholder of the Company is disclosed in the following paragraph about Mr. Zhang Shi Quan.

Ms. Liu Xiao Ping (劉曉平), aged 48, is a Director, a deputy general manager and the Board secretary of the Company. She is a Chinese national with no permanent residence abroad. She has a master's degree. Since 13 May 2011, she has been appointed as the Board secretary of the Company. Since 27 December 2013, she has been appointed as a deputy general manager of the Company. Since 29 June 2018, she has been appointed as a Director of the Company. Between 2006 and 2011, she was the director of securities and investment department of the Company. Her current term was effective from 29 June 2018 and is valid till 29 June 2021.

NON-EXECUTIVE DIRECTORS

Mr. Zhang Shi Quan (張世權), aged 69, is the Chairman of the Company. He is a Chinese national with no permanent residence abroad. He is a senior economist. Since 12 June 2004, he has been appointed as the Chairman of the Company. From 12 June 2004 to 27 December 2017, Mr. Zhang was the General Manager of the Company. Mr. Zhang was awarded the title of "China Outstanding Private Entrepreneurs" (中國優秀民營企業家). He was also awarded "Top Ten Distinguished Persons for the Second Year for China's Industrial Economy" (第二屆中國工業經濟年度十大傑出人物) granted by the Office for Election of Distinguished Persons for China's Industrial Economy (中國工業經濟年度人物評選辦公室) in 2006. Mr. Zhang's current term was effective from 29 June 2018 and is valid till 29 June 2021. Mr. Zhang is also a director of Shibao Holding; an executive director of Hangzhou Shibao and Siping Steering; the chairman of Wuhu Sterling; and a director of Jilin Shibao, Hangzhou New Shibao and Beijing Autonics. Mr. Zhang Shi Quan is the elder brother of Mr. Zhang Shi Zhong and is the father of Mr. Zhang Bao Yi and Ms. Zhang Lan Jun. Mr. Zhang Shi Quan is the father-in-law of Mr. Tang Hao Han. Shibao Holding is the controlling shareholder of the Company, of which Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Mr. Zhang Shi Zhong are the actual controllers.

Mr. Zhang Shi Zhong (張世忠), aged 58, is a Director of the Company. He is a Chinese national with no permanent residence abroad. Since 12 June 2004, he has been appointed as a Director of the Company. Mr. Zhang's current term was effective from 29 June 2018 and is valid till 29 June 2021. Mr. Zhang is also the chairman of Shibao Holding. The relationship between Mr. Zhang Shi Zhong and the Directors and controlling shareholder of the Company is disclosed in the foregoing paragraph about Mr. Zhang Shi Quan.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(English translation for reference only)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Guo Kong Hui (郭孔輝), aged 84, is an independent non-executive Director of the Company. He is a Chinese national with no permanent residence abroad, has a Bachelor's degree. Mr. Guo is a professor, PHD supervisor, academician of China Academy of Engineering (中國工程院院士). Currently, Mr. Guo is Honorary President of College of Automotive Engineering of Jilin University (吉林大學汽車工程學院名譽院長), Chairman of Technology Committee of Vehicle Dynamics Sub-Committee of National Automotive Standardization Technical Committee (全國汽車標準化技術委員會車輛動力學分會技術委員會主任委員), a specially invited member of Specialists Committee of China Machinery Industry Federation (中國機械工業聯合會專家委員會特邀委員), a specially invited director of China Mechanical Engineering Society (中國機械工程學會特邀理事), a member of National Auto Calculation Platform Engineering Strategic Guidance Team of China Ministry of Industry and Information Technology (中國工業和信息化部「國家汽車計算平台工程戰略指導組」成員), a honorary member of China Association for Science and Technology (中國科學技術協會榮譽委員), an advisor of Society of Automotive Engineers of China (中國汽車工程學會顧問) and an advisor of Academic Committee of State Key Laboratory of Automotive Simulation and Control (汽車動態模擬國家重點實驗室學術委員會顧問). Between May 2015 and May 2018, Mr. Guo was an independent director of Hualing Xingma Automobile (Group) Co., Ltd. (a company listed on Shanghai Stock Exchange). In 2013, Mr. Guo was selected as one of the "Ten Outstanding Contributed Person of the 60th Anniversary of China Automobile Industry" (中國汽車工業60周年10位卓越貢獻人物). Since 30 June 2014, Mr. Guo has been appointed as an independent non-executive Director of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021.

Mr. Shum Shing Kei (沈成基), aged 48, an independent non-executive Director of the Company, with Chinese nationality and being a permanent citizen of Hong Kong Special Administrative Region of the People's Republic of China, holds a postgraduate degree. Mr. Shum graduated from the Hong Kong Polytechnic University majored in accountancy and obtained a master's degree in financial management from University in London, the United Kingdom. Mr. Shum is a fellow member of the Hong Kong Institute of Certified Public Accountants. Since September 2010, Mr Shum has acted as a practicing partner of CC Alliance CPA & Co. Mr. Shum is currently an independent non-executive director of Nanjing Sample Technology Company Limited, a company listed on the Main Board of Hong Kong Stock Exchange, and China Futex Holdings Limited, a company listed on GEM of Hong Kong Stock Exchange. Since 30 June 2015, Mr. Shum has been appointed as an independent non-executive Director of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021.

Mr. Lin Yi (林逸), aged 66, is an independent Director of the Company. He is a Chinese national with no permanent residence abroad. He has a doctor's degree. Mr. Lin served successively as a professor of Jilin University of Technology, a professor of Beijing Institute of Technology and the deputy Chief Engineer of Beijing Automotive Group Co., Ltd. He then retired from Beijing Automotive Group Co., Ltd. in March 2015. From March 2013 to May 2018, Mr. Lin acted as the manager of China Automobile (Beijing) Automobile Lightweight Technology Research Institute Company Limited and was responsible for the promotion of automobile lightweight technology. From April 2015 to April 2018, Mr. Lin served as an independent director of Zhuzhou Times New Material Technology Co., Ltd. (listed on Shanghai Stock Exchange). Since September 2017, Mr. Lin has been the supervisor of Beijing Automotive Engineering Society. Since 29 June 2018, Mr. Lin has been appointed as an independent non-executive Director of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021.

SUPERVISORS

Mr. Du Min (杜敏), aged 64, is the chairman of the Supervisory Committee of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree. Since 1 January 2019, he has been appointed as the financial controller of Jilin Shibao. Between 2002 and 2018, he was appointed as an assistant to general manager of Siping Steering. Since 1 June 2007, Mr. Du has been appointed as the chairman of the Supervisory Committee of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021. Mr. Du is also a supervisor of Siping Steering.

Mr. Yang Di Shan (楊迪山), aged 80, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is a senior engineer. Mr. Yang retired from FAW Group in 1998. Since 5 June 2009, Mr. Yang has been appointed as a Supervisor of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021. Mr. Yang is also a director of Shibao Holding.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(English translation for reference only)

Mr. Wu Lang Ping (吳琅平), aged 56, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a college's degree. Since 6 March 2019, he has served as a general manager technical advisor of the Yiwu factory of the Company. Between 1993 and 2019, Mr. Wu was appointed as a manager of technical and process department of Hangzhou Shibao. Since 5 June 2009, he has been appointed as a Supervisor of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021.

Mr. Shen Song Sheng (沈松生), aged 81, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He retired from the Company in 2009. Since 12 June 2004, Mr. Shen has been appointed as a Supervisor of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021.

Ms. Feng Yan (馮燕), aged 54, is a Supervisor of the Company. She is a Chinese national with no permanent residence abroad. She has a bachelor's degree and is an associate professor. She has served as a professor at the Zhejiang University of Finance and Economics since September 2000. Since 30 June 2015, Ms. Feng has been appointed as a Supervisor of the Company. Her current term was effective from 29 June 2018 and is valid till 29 June 2021.

SENIOR MANAGEMENT

Mr. Yu Zhong Chao (虞忠潮), aged 54, is a deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is an engineer. Since 11 August 2006, he has been appointed as a deputy general manager of the Company.

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

Ms. Huen Lai Chun (禰麗珍), aged 53, is the company secretary of the Company. Since May 2009, she has been appointed as the company secretary and authorised representative of the Company under the Listing Rules of Hong Kong Stock Exchange. Ms. Huen is a fellow of The Association of Chartered Certified Accountants, and an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Huen has over 10 years of professional experiences in company secretarial work, professional auditing, accounting and financial management.

The Board hereby presents the annual report and audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group has committed itself to the research and development of automotive steering gear products and mainly engaged in the develop, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The activities of its subsidiaries are set out on page 131 in the annual report. Analysis of operating segment is set out on page 144 in the annual report. Further discussion and analysis of businesses required under Schedule 5 to the Hong Kong Companies Ordinance, including the discussion on the major risks and uncertainties that the Group is subject to and the indication of likely development of the Group's business in the future, is set out in the "Management Discussion and Analysis" on pages 10 to 25 in the annual report. These discussions form part of this "Report of the Directors".

Important events after the Reporting Period

The Company has no important events after the Reporting Period.

Environmental policies and performance

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

Green production

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

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

Improvement in production technology

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

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

REPORT OF THE DIRECTORS

Compliance with laws and regulations

During the Reporting Period, the Group has complied with the relevant regulations of the Companies law of PRC and CSRC, Shenzhen Stock Exchange and Hong Kong Stock Exchange.

Relationship with stakeholders

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

RESULTS

Results of the Group for the year ended 31 December 2018 are set out on page 56 in the annual report.

FIVE-YEAR FINANCIAL SUMMARY

Summary of the Group's results, assets and liabilities for the past five financial years are set out on page 8 in the annual report. The summary does not form part of the audited financial statements.

PROFIT DISTRIBUTION

The 2018 profit distribution proposal was approved at the 6th meeting of the sixth section of the Board held on 22 March 2019, the Company will not to declare cash dividend, issue bonus shares or increase capital by transferring from capital reserve fund (2017: Nil). The profit distribution proposal is subject to approval at the 2018 annual general meeting of the Company.

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

Reasons for not distributing profits

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

In light of the characteristics of the automobile industry, the Company usually grants its customers a credit period ranging from 3 to 6 months. Meanwhile, as the steering assembly are customized development products with long preliminary development and experiment cycles, a lot of start-up expenses will be incurred. These products have a higher percentage of special parts, which make stocking complicated. This requires the Company to have sufficient working capitals for daily operation.

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

In 2018, affected by the decline in vehicle production and sales volumes in China, increased market competition, product technology update and increased investment of the Company, and other comprehensive factors, the Company's net profit attributable to shareholders of the listed company was approximately RMB7,278,400, representing a significant decrease of 77.71% as compared with last year.

Therefore, in comprehensive consideration of the characteristics of industry where the Company operates, the Company's own operation conditions and development stage, the Board of the Company is of the opinion that the Company needs funds to maintain daily operations of the Company, and a large amount of funds for the development of new technologies and new products, so it is necessary for the Company to retain profits for daily operations as well as development. The Board of the Company believes that realizing the sustainable development of the Company is conducive to safeguarding the interests of all Shareholders of the Company, especially minority Shareholders. Thus, the Board of the Company proposed not to declare cash dividend, issue bonus shares or increase capital by transferring from reserves for 2018.

Use and using plan of the undistributed profits of the Company

The undistributed profits of the Company in 2018 will roll over to the following year to fulfil the Company's requirement for general working capital and future profit distribution. In the future, the Company will attach great importance to providing returns to its Shareholders by ways of cash dividends as always, making reference to various factors relating to profit distribution and from a prospective which is beneficial to the development of the Company and generating returns to Shareholders, and actively implement its profit distribution policies in strict compliance with relevant laws and regulations and the Articles of Association of the Company, thus sharing the results of the Company's development with investors.

SHARE CAPITAL

Details of changes of the Company's share capital during the Reporting Period are set out in note 5.(1)25 to the notes to the consolidated financial statements in the annual report.

EQUITY-LINKED AGREEMENTS

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

CONVERTIBLE DEBENTURES

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

RESERVES

Reserves of the Group and its changes during the Reporting Period prepared in accordance with China Accounting Standards for Business Enterprises are set out in the Consolidated Statement of Changes in Equity, and details of the relevant reserves are set out in notes 5.(1)26, 27 and 28 to the notes to the consolidated financial statements in the annual report.

DISTRIBUTABLE RESERVE

As at 31 December 2018, the Company's distributable reserve is RMB371,188,331.83 (2017: RMB364,772,936.30), and the relevant details are set out in note 5.(1)28 to the notes to the consolidated financial statements in the annual report.

PROPERTIES, PLANT AND EQUIPMENT

Details of changes of the Group's properties, plant and equipment during the Reporting Period are set out in note 5.(1)9 to the notes to the consolidated financial statements in the annual report.

BORROWINGS

Details of the Group's bank and other borrowings as at 31 December 2018 are set out in note 5.(1)15 and 23 to the notes to the consolidated financial statements in the annual report.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Zhang Bao Yi (張寶義) (*Vice Chairman and General Manager*)
Mr. Tang Hao Han (湯浩瀚) (*Vice Chairman and Deputy General Manager*)
Ms. Zhang Lan Jun (張蘭君) (*Finance Director*)
Ms. Liu Xiao Ping (劉曉平) (*Deputy General Manager and Board Secretary*) (*appointed on 29 June 2018*)

Non-executive Directors

Mr. Zhang Shi Quan (張世權) (*Chairman*) (*re-designated on 29 June 2018*)
Mr. Zhang Shi Zhong (張世忠)
Mr. Zhu Jie Rong (朱頡榕) (*retired on 29 June 2018*)

Independent Non-executive Directors

Mr. Guo Kong Hui (郭孔輝)
Mr. Shum Shing Kei (沈成基)
Mr. Lin Yi (林逸) (*appointed on 29 June 2018*)
Mr. Zhang Hong Zhi (張洪智) (*retired on 29 June 2018*)

Supervisors

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

The terms of all current Directors and Supervisors were disclosed on page 39 in the "Composition of the Board and Board Practices" section of the Corporate Governance Report of this annual report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

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

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the remuneration of Directors, Supervisors and the five highest paid employees during the Reporting Period are set out on pages 141 to 143 in the annual report.

REPORT OF THE DIRECTORS

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

Remuneration by band	Number of person
HK\$2,000,000–HK\$3,000,000	1

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

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

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2018 are set out in note 9.(2) to the notes to the financial statements on pages 138 and 139 in the annual report. These related party transactions are not those discloseable connected transactions governed by Chapter 14A of the Listing Rules.

The Company has no transactions which are subject to the connected transaction disclosure requirements under the Listing Rules of Hong Kong Stock Exchange for the year ended 31 December 2018. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

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

As at 31 December 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 to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code 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)	341,786,098	59.66%	43.28%
	Beneficial owner	26,391,580	4.61%	3.34%

Note: Mr. Zhang Shi Quan holds 40% interest in the registered capital of Shibao Holding, the Ultimate Holding Company of the Company. Shibao Holding holds 341,786,098 A Shares. As Mr. Zhang is entitled to exercise one-third or more of the controlling interests in Shibao Holding, therefore, Mr. Zhang is taken or deemed to be interested in all of the 341,786,098 A Shares held by Shibao Holding.

REPORT OF THE DIRECTORS

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

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

Note: Shibao Holding holds 341,786,098 A Shares, representing 59.66% of A Shares in issue and 43.28% of the total issued share capital of the Company, and accordingly is an associated corporation of the Company.

(3) Long positions in the registered capital of a fellow subsidiary of the Company, Beijing Jizhi Wuxian Technology Limited ("Beijing Jizhi"), an associated corporation of the Company:

Name of Director	Capacity	Contribution in the registered capital	Approximate percentage in the registered capital of Beijing Jizhi
Mr. Zhang Shi Quan	Interest in a controlled corporation	RMB15,300,000	51%

Note: Beijing Jizhi, a subsidiary of Shibao Holding, the Ultimate Holding Company of the Company, is owned as to 51% by Shibao Holding. As Mr. Zhang Shi Quan holds 40% interest in the registered capital of Shibao Holding and therefore is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Shibao Holding, Mr. Zhang is taken or deemed to be interested in the 51% interest directly held by Shibao Holding in Beijing Jizhi.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, so far as is known to the Directors of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in Shares of the Company:

Name of Shareholder	Capacity	Number and class of shares	Approximate percentage of shareholding in same class of shares	Approximate percentage in the Company's total issued share capital
Shibao Holding	Beneficial owner (Note)	341,786,098 A Shares	59.66%	43.28%
Mr. Zhang Shi Quan	Interest in a controlled corporation	341,786,098 A Shares	59.66%	43.28%
	Beneficial owner	26,391,580 A Shares	4.61%	3.34%

Note:

The said Shares were included in the interests of Mr. Zhang Shi Quan in the Shares as disclosed under the “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” section above. Therefore, Mr. Zhang is deemed to have the entire interests in 368,177,678 A Shares of the Company (including 341,786,098 A Shares owned by Shibao Holding and 26,391,580 A Share directly owned by himself). The above interests of Shibao Holding and Mr. Zhang were duplicated.

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

For the year ended 31 December 2018, the Company has not implemented any share option scheme.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

COMPETING INTERESTS

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

EMPLOYEE AND TRAINING PLANS

As at 31 December 2018, the Group had approximately 1,571 full-time employees, including production, sales, technical, financial, administrative and other employees.

The Company has established an employee remuneration and evaluation system, which is in line with its operation and development. Meanwhile, the Company paid attention to skill training of employees and team building, so as to ensure that the personnel reserve of the Company met its development demands. In addition, the Company has established a flexible talent introduction and incentive policy to attract external excellent talents to join the Company.

The Company's Human Resources Department is responsible for making the employee training plans, providing job skills training and comprehensive management training, mainly in the form of in-house training. Meanwhile, we invite external experts and professors to give trainings according to needs, and provide expatriate training opportunities for employees. The Company also carries out team building activities and otherwise every year to build up team spirit and intensify the employee cohesion.

PERMITTED INDEMNITY PROVISION

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

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, purchases attributable to the Group's five largest suppliers and revenue attributable to the five largest customers represented 25.39% and 60.30% of the Group's total purchases and total revenue respectively. In addition, the largest supplier and the largest customer represented 7.09% and 19.53% of the Group's total purchases and revenue respectively.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Corporate Governance Report adopted by the Company is set out on pages 38 to 47 in the annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report will be published on the websites of the Hong Kong Stock Exchange and the Company not later than three months after publication of this annual report.

AUDITORS

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

The financial statements for the year ended 31 December 2018 have been audited by Pan-China Certified Public Accountants LLP.

By order of the Board

Zhang Shi Quan
Chairman

Hangzhou, Zhejiang, the PRC
22 March 2019

REPORT OF THE SUPERVISORY COMMITTEE

(English translation for reference only)

To all Shareholders:

For the year 2018, the Supervisory Committee carefully discharged its duties in strict compliance with the related provisions of the Company Law of the PRC, the Stock Listing Rules of Shenzhen Stock Exchange, the Listing Rules of Hong Kong Stock Exchange, the Articles of Association and the Organization and Procedural Rules and Regulations for the Meetings of the Supervisory Committee.

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

The Supervisory Committee is of the view that all members of the Board and other senior management of the Company have honestly and diligently discharged their duties, strived to maintain the interests of Shareholders and made great efforts to the operating results of the Company in 2018. No violation of laws and regulations of the PRC or the place of listing and the Articles of Association of the Company have been discovered during the discharge of their duties. The Supervisory Committee has no dissenting view over the supervisory matters during the Reporting Period, the Supervisory Committee is optimistic about the prospect of the Company.

Having reviewed the financial statements for the year ended 31 December 2018 prepared by Pan-China Certified Public Accountants LLP based on China Accounting Standards for Business Enterprises, the Supervisory Committee is of the view that the financial statements provide an objective, true and full view of the financial position and operating results of the Company.

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

By order of the Supervisory Committee

Du Min

Convenor of the Supervisory Committee

Hangzhou, Zhejiang, the PRC

22 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interest of all of its stakeholders. The Company's commitment to the highest standards of corporate governance is driven by the Board who, led by the Chairman, assume overall responsibility for the governance of the Company, taking into account the interests of the Company's stakeholders, the development of its business, and the changing external environment. This report describes how the principles of the CG Code have applied during the year ended 31 December 2018 under different aspects.

During the Reporting Period, the Company had been in compliance with the majority of the code provisions set out in the CG Code with the exception of code provision A.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 system. 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 and as of the publication date of this annual report.

COMPOSITION OF THE BOARD AND BOARD PRACTICES

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

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

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

	Attendance of meetings					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment and Strategy Committee	General Meeting
Number of Meetings	8	5	1	2	1	1
Executive Directors						
Mr. Zhang Bao Yi	8/8				1/1	1/1
Mr. Tang Hao Han	8/8				1/1	1/1
Ms. Zhang Lan Jun	8/8			2/2		1/1
Ms. Liu Xiao Ping (appointed on 29 June 2018)	4/4					1/1
Non-executive Directors						
Mr. Zhang Shi Quan (re-designated on 29 June 2018)	8/8				1/1	1/1
Mr. Zhang Shi Zhong	8/8	5/5	2/2			1/1
Mr. Zhu Jie Rong (retired on 29 June 2018)	4/4					1/1
Independent non-executive Directors						
Mr. Guo Kong Hui	8/8					1/1
Mr. Shum Shing Kei	8/8	5/5	2/2	2/2		1/1
Mr. Lin Yi (appointed on 29 June 2018)	4/4	2/2	1/1	1/1		1/1
Mr. Zhang Hong Zhi (retired on 29 June 2018)	4/4	3/3	1/1	1/1		1/1

CORPORATE GOVERNANCE REPORT

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

The terms of all current Directors and Supervisors were effective from 29 June 2018 and are valid till 29 June 2021.

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

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

Mr. Zhang Shi Zhong (a non-executive Director) is the younger brother of Mr. Zhang Shi Quan (Chairman and a non-executive Director). Mr. Zhang Bao Yi (an executive Director and general manager) is the son of Mr. Zhang Shi Quan. Ms. Zhang Lan Jun (an executive Director and Finance Director) is the daughter of Mr. Zhang Shi Quan. Mr. Tang Hao Han (an executive Director and deputy general manager) is the son-in-law of Mr. Zhang Shi Quan. Shibao Holding is the Controlling Shareholder of the Company, and Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Mr. Zhang Shi Zhong are the effective controllers of the Company, the relevant interests of which are disclosed on page 34 in the “Long positions in the registered capital of the ultimate holding company, Shibao Holdings, an associated corporation of the Company” section of this annual report. Saved as the above and disclosed in “Directors, Supervisors and Senior Management” section of this annual report, there is no other financial, business, family or material relationship between the members of the Board.

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

The Board designates the Group’s daily operation works to be handled by the executive Directors and senior management. The Board makes decisions on certain important matters, including annual business plans; annual financial budgets; annual remuneration plans; interim and annual financial reports; preliminary distribution plans in respect of interim profit and full year profit; and material issues involving development, acquisition or corporate reorganization of the Company. The Board transmits its decisions to the management through executive Directors who attend Board meetings. In addition to the implementation of the decisions of the Board, the management handles the day-to-day business and operations of the Group and reports to the Board. The management can make a decision or enter into a commitment on behalf of the Company only after reporting to the Board and obtaining its approval.

CHAIRMAN AND GENERAL MANAGER

The roles of Chairman and General Manager was separated so as to define respective responsibilities, rights and scope of authorisation. Mr. Zhang Shi Quan is the founder of the Company and was responsible for overseeing the overall strategic planning, new business development, acquisition and merging, making response over market changes and finalisation of strategic plans. Mr. Zhang Bao Yi is the General Manager and was responsible for daily management of the Group, determining and implementing operating decisions and giving advice to the Board.

CORPORATE GOVERNANCE REPORT

FUNCTIONS OF CORPORATE GOVERNANCE

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

All of the new Directors of the Company received trainings which were arranged according to their experience and background, so as to enhance their knowledge and understanding of the Group's culture and operations. The training contents generally include an introduction to the Group's structure, business and governance practices. In addition, all Directors are required to provide their training records to the Company semiannually.

During the Reporting Period, in order to develop and update the knowledge and skills of the Board members, all Directors have participated in appropriate continuous professional development training, which covered the update of laws, rules and regulations and the duties and responsibilities of Directors, so as to ensure that Directors were able to make contribution and perform their duties after obtaining considerable information. Information on the trainings of each Director during the Reporting Period is as follows:

	Attending Seminar/Briefing Session	Reading Information	Watching Online Training Video
Executive Directors:			
Mr. Zhang Bao Yi	✓	✓	✓
Mr. Tang Hao Han	✓	✓	✓
Ms. Zhang Lan Jun	✓	✓	✓
Ms. Liu Xiao Ping (appointed on 29 June 2018)	✓	✓	✓
Non-executive Directors:			
Mr. Zhang Shi Quan (re-designated on 29 June 2018)	✓	✓	✓
Mr. Zhang Shi Zhong	✓	✓	✓
Mr. Zhu Jie Rong (retired on 29 June 2018)	✓	✓	✓
Independent non-executive Directors:			
Mr. Guo Kong Hui	✓	✓	✓
Mr. Shum Shing Kei	✓	✓	✓
Mr. Lin Yi (appointed on 29 June 2018)	✓	✓	✓
Mr. Zhang Hong Zhi (retired on 29 June 2018)	✓	✓	✓

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

The internal audit department was set up by the Company in 2007. Our internal audit department had conducted quarterly reviews on the internal control of the Group throughout 2018 and submitted quarterly reports on internal audit. The reviews cover all the material aspects of monitoring, including financial control, operation control, compliance control and risk management functions, and the adequacy of resources, qualifications and experience of staff of the Company’s accounting and financial reporting function, and their training programmes and budget.

In addition, the Company engaged Pan-China Certified Public Accountants LLP to be the Company’s internal control auditor during the Reporting Period. Pan-China Certified Public Accountants LLP is of the view that the Company has maintained effective internal control of financial report in all material aspects as of 31 December 2018 in accordance with the Basic Standards for Internal Control of Companies and relevant regulations.

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

HANDLING OF INSIDE INFORMATION

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

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

REMUNERATION COMMITTEE

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

The Remuneration Committee consists of three members, namely Mr. Shum Shing Kei (Chairman of the Remuneration Committee) and Mr. Lin Yi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). During the Reporting Period, the Remuneration Committee held one meeting and conducted a written resolution to consider and approve the proposal on the remuneration of Ms. Liu Xiao Ping and Mr. Lin Yi and the remuneration of Directors, Supervisors and senior management for the year 2018 of the Company, and submit proposals to the Board. Records of attendance of each member of the committee are set out on page 38 under "Composition of the Board and Board Practices" section of this annual report.

NOMINATION COMMITTEE

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

The Nomination Committee consists of three members, namely Mr. 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). During the Reporting Period, the Nomination Committee held one meeting and conducted a written resolution to consider and approve the proposal on the candidate list for the election of the new session of the Board, the structure, size and composition of the Board, amendments to the Board diversity policy and amendments to the measurable objectives of the Board diversity policy. Records of attendance of each member of the committee are set out on page 38 under "Composition of the Board and Board Practices" section of this annual report.

BOARD DIVERSITY POLICY

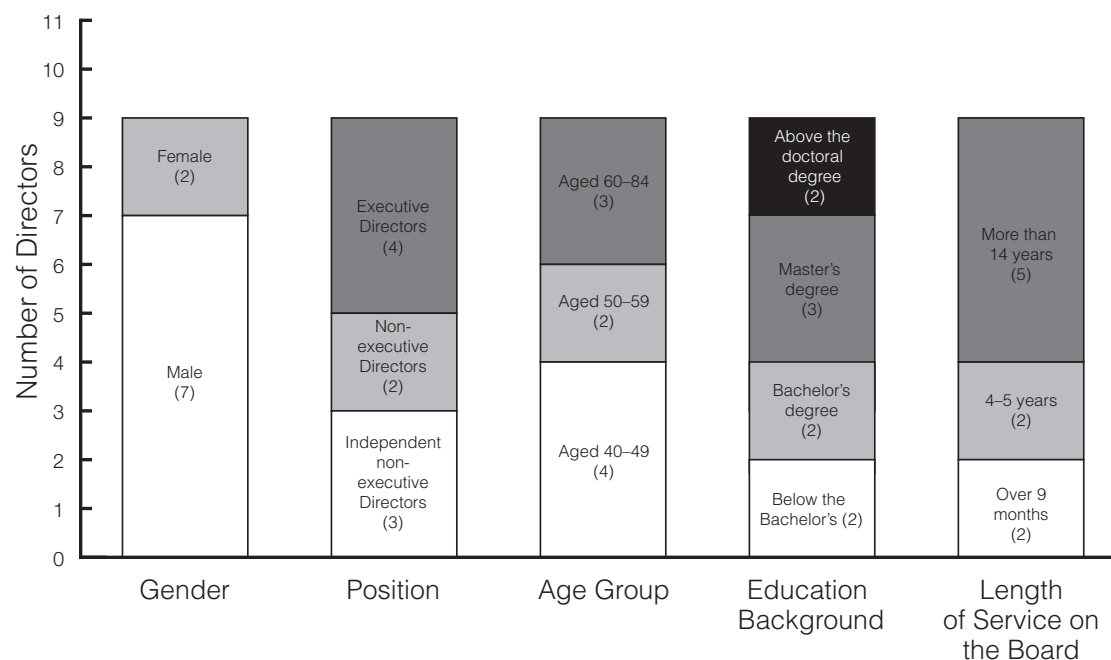
On 21 December 2018, the Nomination Committee proposed to the Board amendments to the Board Diversity Policy, which were approved by the Board. The policy summary is as follows:

1. Purpose: This policy aims to achieve diversity on the Company's Board of Directors.
2. Vision: The Company recognises and embraces the benefits of the policy to enhance the quality of its performance.
3. Policy statement: With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.
4. Measurable objectives: Selection of candidates will be based on a range of diversity perspectives. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

CORPORATE GOVERNANCE REPORT

5. Details of this policy: This policy has been published on websites of the Company and the Hong Kong Stock Exchange for public information.

An analysis of the Board diversity as at the end of the Reporting Period is set out below:



MEASURABLE OBJECTIVES OF THE BOARD DIVERSITY POLICY

On 21 December 2018, the Nomination Committee proposed to the Board amendments to the measurable objectives of the Board Diversity Policy, which were approved by the Board. With regard to the implementation of the Board diversity policy, the following measurable objectives are adopted:

- (1) External Directors (namely Directors who do not hold any office in the Company) shall represent more than one half (1/2) of the total number of directors of the Board;
- (2) Independent Directors (namely Directors who are independent of Shareholders of the Company and do not hold any office in the Company) shall represent one third (1/3) or more of the total number of Directors of the Board;
- (3) At least one independent Director is an accounting professional; and
- (4) At least two thirds (2/3) of the Board members shall have over seven years of experience in their respective industries.

During the year ended 31 December 2018, the Board achieved the measurable objectives of the Board diversity policy.

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). During the Reporting Period, the Audit Committee held five meetings to review and approve, among others, the annual audit report for the year 2017, self-assessment report on internal control for the year 2017, and the unaudited financial statements of first quarter, first half and third quarter of 2018, the internal audit report and internal audit working plan. Also, the Audit Committee reviewed and approved the resolution on the re-appointment of Pan-China Certified Public Accountants LLP as the auditors of the Company for the year 2018, and submitted to the Board for review. Records of attendance of each member of the committee are set out on page 38 under “Composition of the Board and Board Practices” section of this annual report.

The Company’s annual audit report for the year ended 31 December 2018 has been reviewed by the Audit Committee.

SUPERVISORY COMMITTEE

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

INVESTMENT & STRATEGY COMMITTEE

On 13 May 2011, the Company established the Investment & Strategy Committee and formulated the rules of procedure for the committee. The Investment & Strategy Committee is mainly responsible for (i) analyzing and providing suggestions on long-term development strategy plans of the Company; (ii) analyzing and providing suggestions on the Company’s significant investment and financing plans; (iii) analyzing and providing suggestions on significant market development, merger and acquisition and other projects; and (iv) inspecting the implementation of the above matters.

The Investment & Strategy Committee comprises three members, namely Mr. Zhang Shi Quan (Chairman of the Board) (Chairman of the Investment & Strategy Committee), Mr. Zhang Bao Yi and Mr. Tang Hao Han (both are executive Directors). During the Reporting Period, the Investment & Strategy Committee held one meeting to consider the proposal on the development strategies and objectives of the Company.

REMUNERATION OF THE AUDITORS

For the year ended 31 December 2018, remuneration received by Pan-China Certified Public Accountants LLP, the (Chairman of the Board) auditors of the Company, in respect of their audit services and non-audit services are as follows:

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

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company engages an external service provider as its company secretary. Ms. Liu Xiao Ping, an executive Director and the Board Secretary of the Company, is a contact person of the external service provider. The biographies of the Company Secretary and the Board Secretary of the Company are set out on page 28 in the “Directors, Supervisors and Senior Management” section of this annual report. During the Reporting Period, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

RESPONSIBILITY OF DIRECTORS AND AUDITORS ON THE ACCOUNTS

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

Statements of the Company’s auditors in respect of their reporting responsibilities on the Group’s financial statements are set out on pages 51 to 52 in the Auditors’ Report in the annual report.

SHAREHOLDERS’ RIGHTS

Procedures of convening general meetings by Shareholders

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

Procedures of sending enquiries to the Board

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

Procedures of raising proposal in the general meeting

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

ARTICLES OF ASSOCIATION

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

RELATIONSHIP WITH SHAREHOLDERS

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

RELATIONSHIP WITH INVESTORS

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

AUDITORS' REPORT

(English translation for reference only)



Type of audit opinions:	Standard unqualified audit opinions
Date of signing of auditors report:	22 March 2019
Name of auditors:	Pan-China Certified Public Accountants LLP
Auditors report file number:	Pan-China Audit [2019] No. 958
Names of the CPAs:	Yu Jianan, Bei Lihui

TO THE SHAREHOLDERS OF ZHEJIANG SHIBAO COMPANY LIMITED

1. OPINION

We have audited the accompanying financial statements of Zhejiang Shibao Company Limited (hereinafter "Zhejiang Shibao Company"), which comprise the consolidated and parent company balance sheet as at 31 December 2018, the consolidated and parent company income statements, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity for the year then ended, and the notes to the financial statements.

In our opinion, the attached financial statements present fairly, in all material aspects, the consolidated and parent company's financial position of Zhejiang Shibao Company as at 31 December 2018 and the consolidated and parent company's financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

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

3. KEY AUDIT MATTERS

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

(1) Bad-debt provision for notes receivable and accounts receivable

1. Description of the matter

For relevant information disclosure, see Notes 3(9), (28) and 5(1)3 to the financial statements.

The major customers of Zhejiang Shibao Company are domestic automakers. As of 31 December 2018, the balance of the notes receivable and accounts receivable of Zhejiang Shibao Company, the bad debt provision for them and their carrying amount were RMB616,819,574.70, RMB6,139,257.62 and RMB610,680,317.08 respectively.

AUDITORS' REPORT

(English translation for reference only)

As set out in Note 3(29) to the financial statements, Zhejiang Shibao Company has adopted ASBE 22 – Recognition and Measurement of Financial Instruments, ASBE 23 – Transfer of Financial Assets, ASBE 24 – Hedging, ASBE 37 – Presentation of Financial Instruments amended by the Ministry of Finance (hereinafter referred to as New Financial Instrument Standards), from 1 January 2018. In accordance with the New Financial Instrument Standards, the management of Zhejiang Shibao Company (hereinafter referred to as the Management) carried out an impairment test of and recognised the provision for losses on notes receivable and accounts receivable measured at amortised cost, based on the expected credit loss: For notes receivable and accounts receivable with individual risk characteristics which were obvious, the expected credit loss was calculated, according to similar credit risk characteristics of receivables (the ability of debtors to repay debts in accordance with contract terms), and the potential losses estimated on the basis of historical losses and economic conditions of the debtors, and based on the default risk exposure and lifetime expected credit loss rate; for the notes receivable and accounts receivable with similar risk characteristics, the expected credit loss was calculated, or the table of the age of accounts receivable and the lifetime expected credit losses was prepared for calculation of the expected credit loss, according to the groups determined on an established basis, with reference to the historical credit loss experience, and in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.

The management has formulated new accounting policies according to the New Financial Instrument Standards, and approved account policy changes after consideration by the Board. Meanwhile, in estimating whether notes receivable and accounts receivable are impaired, the management is required to make accounting estimates, in consideration of credit records of customers, historical losses and market conditions, which involves a great number of assumptions and subjective judgments. Based on the above accounting policy changes, the significant carrying amount of notes receivable and accounts receivable as well as inherent uncertainties of relevant estimates, we are of the opinion that it is a key audit matter.

2. *Audit response*

With regard to bad debt provision for notes receivable and accounts receivable, our audit procedures mainly include:

- (1) We sought to understand, assessed and tested the entire process undergone by Zhejiang Shibao Company from granting credit period to a customer to giving regular review to any loss provision made for notes receivables and accounts receivable of the customer, as well as the key internal control system of the Management.
- (2) We check whether relevant accounting policies formulated by the management comply with the New Financial Instrument Standards, and whether accounting policy changes are approved after consideration by the Board.
- (3) We sought to understand and assessed the policy of Zhejiang Shibao Company on provisioning for loss in notes receivable and accounts receivable by reviewing sale contracts and meeting and discussion with the Management.
- (4) We have obtained data and relevant information based on which the management assessed whether notes receivable and accounts receivable were impaired and determined the expected loss rate, and evaluated their appropriateness and adequacy; and evaluated the adequacy of loss provisions for notes receivable and accounts receivable, through comparing the loss provisions for prior periods and the actual amounts, and in consideration of subsequent recovery.
- (5) We have evaluated the relevance and accuracy of information which forms the basis of loss provision assessment of notes receivable and accounts receivable on a sampling basis, discussed with the Management the collectability of significant notes receivable and accounts receivable and conducted an independent confirmation procedure.
- (6) We have checked whether information on impairment of notes receivable and accounts receivable was presented and disclosed in financial statements.

AUDITORS' REPORT

(English translation for reference only)

(2) Provision for inventory obsolescence

1. Description of the matter

For relevant information disclosure, see Notes 3(10), (28) and 5(1)6 to the financial statements.

As of 31 December 2018, the balance of inventory items, inventory obsolescence provisions and the carrying amount of inventory items in the financial statements of Zhejiang Shibao Company were RMB300,246,929.43, RMB3,629,447.06 and RMB296,617,482.37 respectively.

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

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

2. Audit response

With regard to inventory obsolescence provisions, our audit procedures mainly include:

- (1) We sought to understand, assessed and tested the entire process undergone by Zhejiang Shibao Company from automatic stock clearing, reasonable recognition of stock amount and condition, to evaluation and measurement of inventory obsolescence, as well as the key internal control system of the Management.
- (2) We sought to understand and assessed the policy of Zhejiang Shibao Company on provisioning for inventory obsolescence by reviewing its internal information and meeting and discussion with the Management.
- (3) We have received information from the Management, which forms the basis of the impairment assessment of inventory and inventory obsolescence provision, to examine its appropriateness and adequacy. The adequacy of provision for inventory obsolescence made by the Management is determined through a comparison of prior provision with its actual realization, and based on the aging analysis of inventory and the fluctuation of product prices, as well as its stock condition from the stock examination at the balance sheet date.
- (4) We have evaluated the relevance and accuracy of information which forms the basis of net realizable value on a sampling basis, discussed with the Management the net realizable value regarding significant items of inventory, and evaluated the relevance of provision for inventory obsolescence through the re-calculating procedure based on market price.
- (5) We have checked whether information on net realisable value of inventories was presented and disclosed in financial statements.

4. OTHER INFORMATION

The management is responsible for other information, including information in A share annual report and H share annual report, and excluding financial statements and our auditor's report. The A share annual report was received by us prior to the date of our auditor's report, while the H share annual report will be provided for us after the date of our auditor's report.

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

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

Based on work carried out by us for other information obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

AUDITORS' REPORT

(English translation for reference only)

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

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

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

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

Pan-China Certified Public Accountants LLP
Hangzhou, the PRC

Chinese Certified Public Accountant: Yu Jianan (Partner-in-charge of project)
Chinese Certified Public Accountant: Bei Lihui

22 March 2019

CONSOLIDATED BALANCE SHEET

31 December 2018 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(1)	31 December 2018	1 January 2018	31 December 2017
Current assets:				
Cash on hand and at bank	1	129,531,349.92	184,342,739.55	184,342,739.55
Financial assets held for trading	2	60,000,000.00	130,000,000.00	
Notes receivable and accounts receivable	3	610,680,317.08	626,535,368.21	627,063,459.95
Include: Notes receivable		142,065,764.04	114,302,216.24	114,302,216.24
Accounts receivable		468,614,553.04	512,233,151.97	512,761,243.71
Prepayments	4	5,961,331.19	7,004,776.38	7,004,776.38
Other receivables	5	7,223,954.38	6,468,067.86	6,468,067.86
Inventories	6	296,617,482.37	279,634,663.89	279,634,663.89
Other current assets	7	14,024,896.78	9,737,784.36	139,737,784.36
Total current assets		1,124,039,331.72	1,243,723,400.25	1,244,251,491.99
Non-current assets:				
Investment property	8	23,875,050.98		
Fixed assets	9	648,472,200.05	592,681,978.24	592,681,978.24
Construction in progress	10	101,847,457.97	119,801,083.84	119,801,083.84
Intangible assets	11	90,633,988.60	97,344,007.19	97,344,007.19
Goodwill	12	4,694,482.34	4,694,482.34	4,694,482.34
Deferred income tax assets	13	3,795,739.02	3,371,721.21	3,302,768.13
Other non-current assets	14	47,719,083.17	42,348,649.17	42,348,649.17
Total non-current assets		921,038,002.13	860,241,921.99	860,172,968.91
Total assets		2,045,077,333.85	2,103,965,322.24	2,104,424,460.90
Current liabilities:				
Short-term borrowings	15	20,000,000.00		
Notes payable and accounts payable	16	428,731,466.38	497,568,559.83	497,568,559.83
Receipts in advance	17	2,090,618.17		3,382,424.14
Contract liabilities	21	3,902,211.90	3,382,424.14	
Staff costs payable	18	13,581,085.61	15,671,079.38	15,671,079.38
Tax payable	19	1,905,954.69	8,252,072.77	8,252,072.77
Other payables	20	1,884,413.39	5,565,003.77	5,565,003.77
Include: Interest payable		910,048.62	882,136.11	882,136.11
Other current liabilities	22	28,305,075.09	23,955,021.97	23,955,021.97
Total current liabilities		500,400,825.23	554,394,161.86	554,394,161.86

CONSOLIDATED BALANCE SHEET

31 December 2018 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(1)	31 December 2018	1 January 2018	31 December 2017
Non-current liabilities:				
Long-term borrowings	23	9,080,000.00	11,080,000.00	11,080,000.00
Deferred income	24	41,967,767.80	46,477,939.98	46,477,939.98
Deferred income tax liabilities	13	3,106,579.85	3,456,833.99	3,456,833.99
Total non-current liabilities		54,154,347.65	61,014,773.97	61,014,773.97
Total liabilities		554,555,172.88	615,408,935.83	615,408,935.83
Equity:				
Share capital	25	789,644,637.00	789,644,637.00	789,644,637.00
Capital reserve	26	182,334,093.78	185,250,172.21	185,250,172.21
Surplus reserve	27	135,379,620.20	134,912,363.87	134,912,363.87
Retained earnings	28	371,188,331.83	364,377,219.82	364,772,936.30
Equity attributable to equity holders of the parent		1,478,546,682.81	1,474,184,392.90	1,474,580,109.38
Minority interests		11,975,478.16	14,371,993.51	14,435,415.69
Total equity		1,490,522,160.97	1,488,556,386.41	1,489,015,525.07
Total liabilities and equity		2,045,077,333.85	2,103,965,322.24	2,104,424,460.90

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

BALANCE SHEET OF THE PARENT COMPANY

31 December 2018 | (RMB Yuan) | (English translation for reference only)

Item	Note 13.(1)	31 December 2018	1 January 2018	31 December 2017
Current assets:				
Cash on hand and at bank		38,118,008.66	18,725,136.03	18,725,136.03
Financial assets held for trading		20,000,000.00	110,000,000.00	
Notes receivable and accounts receivable	1	60,886,603.56	65,898,211.75	65,898,331.12
Include: Notes receivable		1,840,000.00	955,000.00	955,000.00
Accounts receivable		59,046,603.56	64,943,211.75	64,943,331.12
Prepayments		1,325,090.40	832,791.61	832,791.61
Other receivables	2	373,291,338.80	344,608,524.35	344,608,524.35
Inventories		10,821,449.25	7,958,985.85	7,958,985.85
Other current assets		3,907,924.37	209,765.05	110,209,765.05
Total current assets		508,350,415.04	548,233,414.64	548,233,534.01
Non-current assets:				
Long-term accounts receivable		288,000,000.00	298,000,000.00	298,000,000.00
Long-term equity investments	3	185,159,214.87	185,159,214.87	185,159,214.87
Investment property		17,889,608.94		
Fixed assets		77,182,953.94	11,208,135.99	11,208,135.99
Construction in progress		24,842,997.63	51,302,543.57	51,302,543.57
Intangible assets		34,646,333.12	35,581,319.24	35,581,319.24
Deferred income tax assets		97,276.77	73,274.59	73,244.75
Other non-current assets		14,091,246.43	12,035,125.00	12,035,125.00
Total non-current assets		641,909,631.70	593,359,613.26	593,359,583.42
Total Assets		1,150,260,046.74	1,141,593,027.90	1,141,593,117.43
Current liabilities:				
Short-term borrowings		20,000,000.00		
Notes payable and accounts payable		15,055,259.36	30,520,224.83	30,520,224.83
Receipts in advance		2,090,618.17		1,500.00
Contract liabilities		5,500.00	1,500.00	
Staff cost payable		1,200,727.74	1,026,207.01	1,026,207.01
Tax payable		798,591.50	643,667.78	643,667.78
Other payables		333,967.46	3,298,609.10	3,298,609.10
Other current liabilities		880,000.00	880,000.00	880,000.00
Total current liabilities		40,364,664.23	36,370,208.72	36,370,208.72
Non-current liabilities:				
Total liabilities		40,364,664.23	36,370,208.72	36,370,208.72
Shareholders' Equity:				
Share capital		789,644,637.00	789,644,637.00	789,644,637.00
Capital reserve		187,767,058.72	187,767,058.72	187,767,058.72
Surplus reserve		74,376,643.16	73,909,386.83	73,909,386.83
Retained earnings		58,107,043.63	53,901,736.63	53,901,826.16
Total Shareholders' Equity		1,109,895,382.51	1,105,222,819.18	1,105,222,908.71
Total Liabilities and Shareholders' Equity		1,150,260,046.74	1,141,593,027.90	1,141,593,117.43

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

CONSOLIDATED INCOME STATEMENT

For the year 2018 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(2)	2018	2017
1. Total Revenue	1	1,133,097,729.85	1,154,256,267.96
Include: Revenue	1	1,133,097,729.85	1,154,256,267.96
2. Total operating costs		1,167,117,808.81	1,142,643,391.78
Include: Operating costs	1	938,862,512.28	949,375,060.68
Business taxes and surcharges	2	8,448,316.41	10,062,932.55
Selling expenses	3	78,345,952.20	71,112,952.13
General and administrative expenses	4	72,020,750.48	65,146,644.24
Research and development expenses	5	66,456,611.17	47,668,732.19
Financial expenses	6	-446,912.58	-519,681.98
Include: Interest expenses		1,830,859.94	1,020,578.90
Interest income		3,672,267.93	1,767,119.27
Assets impairment losses	7	3,430,074.89	-203,248.03
Credit impairment losses	8	503.96	
Add: Other gains	9	19,967,062.85	13,558,372.54
Investment gains	10	4,275,660.37	7,975,271.12
Gains from disposal of assets ("-" for loss)	11	11,896,367.95	-689,980.17
3. Operating profit		2,119,012.21	32,456,539.67
Add: Non-operating income	12	308,431.56	264,753.45
Less: Non-operating expenses	13	535,293.70	403,128.52
4. Total profit		1,892,150.07	32,318,164.60
Less: Income tax expenses	14	-73,624.49	5,584,361.33
5. Net profit		1,965,774.56	26,733,803.27
(1) Net profit from continuing operations		1,965,774.56	26,733,803.27
Net profit attributable to equity holders of the parent		7,278,368.34	32,656,134.48
Minority interests		-5,312,593.78	-5,922,331.21
6. Net other comprehensive income after tax			
7. Total comprehensive income		1,965,774.56	26,733,803.27
Total comprehensive income attributable to equity holders of the parent		7,278,368.34	32,656,134.48
Total comprehensive income attributable to minority shareholders		-5,312,593.78	-5,922,331.21
8. Earnings per share:			
(1) Basic earnings per share		0.0092	0.0414
(2) Diluted earnings per share		0.0092	0.0414

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

INCOME STATEMENT OF THE PARENT COMPANY

For the year 2018 | (RMB Yuan) | (English translation for reference only)

Item	Note 13.(2)	2018	2017
1. Revenue	1	41,767,591.54	48,584,027.86
Less: Operating costs	1	37,056,488.83	41,837,379.23
Business taxes and surcharges		248,383.45	1,184,630.53
Selling expenses		1,986,192.61	412,166.82
General and administrative expenses		14,522,633.82	9,809,581.42
Research and development expenses	2	4,012,357.57	1,235,858.72
Financial expenses		-3,714,045.27	-3,989,713.86
Include: Interest expenses		1,000,491.68	218,780.84
Interest income		4,702,819.91	4,172,226.36
Asset impairment losses		96,126.14	
Credit impairment losses		-117.45	
Add: Other gains		3,053,499.88	19,563.73
Investment gains	3	2,885,996.37	44,033,486.69
Gains from disposal of assets (“-” for loss)		11,813,620.08	-42,968.52
2. Operating profit		5,312,688.17	42,104,206.90
Add: Non-operating income		200.00	42,913.76
Less: Non-operating expenses		7,760.23	10,320.00
3. Total profit		5,305,127.94	42,136,800.66
Less: Income tax expenses		632,564.61	613,693.82
4. Net profit		4,672,563.33	41,523,106.84
(1) Net profit from continuing operations		4,672,563.33	41,523,106.84
5. Net other comprehensive income after tax			
6. Total comprehensive income		4,672,563.33	41,523,106.84
7. Earnings per share			

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(3)	2018	2017
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		433,940,803.72	459,640,533.80
Return of taxes and levies		3,419,261.38	7,430,266.64
Cash received relating to other operating activities	1	50,341,856.73	52,398,991.85
Sub-total of cash inflow		487,701,921.83	519,469,792.29
Cash paid for goods and services		192,558,225.05	218,706,817.19
Cash paid to and on behalf of employees		163,196,334.24	160,712,702.68
Payment of taxes and levies		32,547,989.01	51,272,082.60
Cash paid relating to other operating activities	2	112,249,016.83	111,633,387.87
Sub-total of cash outflow		500,551,565.13	542,324,990.34
Net cash flows from operating activities		-12,849,643.30	-22,855,198.05
2. Cash flows from investing activities:			
Cash received for investments		395,000,000.00	1,547,600,000.00
Cash received from investment gains		4,532,200.00	8,602,420.52
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		17,090,463.37	7,111,795.41
Cash received relating to other investing activities	3	6,620,000.00	
Sub-total of cash inflow		423,242,663.37	1,563,314,215.93
Cash paid to acquire fixed assets, intangible assets and other long-term assets		140,955,631.50	103,163,055.99
Cash paid for investments		325,000,000.00	1,363,000,000.00
Cash paid relating to other investing activities	4	3,100,000.00	
Sub-total of cash outflow		469,055,631.50	1,466,163,055.99
Net cash flows from investing activities		-45,812,968.13	97,151,159.94
3. Cash flows from financing activities:			
Cash received from borrowings		238,400,000.00	132,000,000.00
Sub-total of cash inflow		238,400,000.00	132,000,000.00
Cash paid for debt repayments		218,400,000.00	130,550,000.00
Cash paid for distribution of dividends, profit or interest expenses		1,462,590.25	31,973,918.26
Cash paid relating to other financing activities	5		755,977.61
Sub-total of cash outflow		219,862,590.25	163,279,895.87
Net cash flows from financing activities		18,537,409.75	-31,279,895.87
4. Effect of changes in foreign exchange rate on cash and cash equivalents		-7,326.32	79,065.03
5. Net increase in cash and cash equivalents		-40,132,528.00	43,095,131.05
Add: opening balance of cash and cash equivalents		160,425,712.97	117,330,581.92
6. Closing balance of cash and cash equivalents		120,293,184.97	160,425,712.97

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

For the year 2018 | (RMB Yuan) | (English translation for reference only)

Item	2018	2017
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	32,459,604.78	54,008,684.32
Cash received relating to other operating activities	69,175,835.15	49,550,615.01
Sub-total of cash inflow	101,635,439.93	103,559,299.33
Cash paid for goods and services	32,118,031.49	22,687,304.94
Cash paid to and on behalf of employees	15,278,442.81	9,657,112.25
Payment of taxes and levies	1,578,249.52	4,165,672.62
Cash paid relating to other operating activities	84,523,007.73	69,796,141.89
Sub-total of cash outflow	133,497,731.55	106,306,231.70
Net cash flows from operating activities	-31,862,291.62	-2,746,932.37
2. Cash flows from investing activities:		
Cash received for investments	280,000,000.00	570,000,000.00
Cash received from investment gains	3,059,156.16	44,275,495.89
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	12,043,061.00	40,000.00
Cash received relating to other investing activities	86,620,000.00	70,652,500.00
Sub-total of cash inflow	381,722,217.16	684,967,995.89
Cash paid to acquire fixed assets, intangible assets and other long-term assets	75,625,204.03	25,025,881.93
Cash paid for investments	190,000,000.00	540,000,000.00
Cash paid relating to other investing activities	82,600,000.00	79,150,000.00
Sub-total of cash outflow	348,225,204.03	644,175,881.93
Net cash flows from investing activities	33,497,013.13	40,792,113.96
3. Cash flows from financing activities:		
Cash received from borrowings	180,000,000.00	130,000,000.00
Sub-total of cash inflow	180,000,000.00	130,000,000.00
Cash paid for debt repayments	160,000,000.00	130,000,000.00
Cash paid for distribution of dividends, profit or interest expenses	947,043.88	31,811,903.15
Cash paid relating to other financing activities		755,977.61
Sub-total of cash outflow	160,947,043.88	162,567,880.76
Net cash flows from financing activities	19,052,956.12	-32,567,880.76
4. Effect of changes in foreign exchange rate on cash and cash equivalents		69,297.32
5. Net increase in cash and cash equivalents	20,687,677.63	5,546,598.15
Add: opening balance of cash and cash equivalents	16,695,331.03	11,148,732.88
6. Closing balance of cash and cash equivalents	37,383,008.66	16,695,331.03

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2018 | (RMB Yuan) | (English translation for reference only)

Item	2018						Total shareholders' equity
	Attributable to equity holders of the parent					Minority interests	
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total		
1. Balance at the end of last year	789,644,637.00	185,250,172.21	134,912,363.87	364,772,936.30	1,474,580,109.38	14,435,415.69	1,489,015,525.07
Add: Change in accounting policies				-395,716.48	-395,716.48	-63,422.18	-459,138.66
2. Balance at the beginning of year	789,644,637.00	185,250,172.21	134,912,363.87	364,377,219.82	1,474,184,392.90	14,371,993.51	1,488,556,386.41
3. Increase/decrease during the period ("-" for decrease)		-2,916,078.43	467,256.33	6,811,112.01	4,362,289.91	-2,396,515.35	1,965,774.56
(1) Total comprehensive income				7,278,368.34	7,278,368.34	-5,312,593.78	1,965,774.56
(2) Contribution by shareholders and decrease in capital		-2,916,078.43			-2,916,078.43	2,916,078.43	
1. Other		-2,916,078.43			-2,916,078.43	2,916,078.43	
(3) Appropriation of profits			467,256.33	-467,256.33			
1. Transfer to surplus reserve			467,256.33	-467,256.33			
4. Balance at the end of year	<u>789,644,637.00</u>	<u>182,334,093.78</u>	<u>135,379,620.20</u>	<u>371,188,331.83</u>	<u>1,478,546,682.81</u>	<u>11,975,478.16</u>	<u>1,490,522,160.97</u>

Item	2017						Total shareholders' equity
	Attributable to equity holders of the parent					Minority interests	
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total		
1. Balance at the end of last year	315,857,855.00	659,036,954.21	130,760,053.19	367,854,898.00	1,473,509,760.40	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	1,473,509,760.40	20,357,746.90	1,493,867,507.30
3. Increase/decrease during the period ("-" for decrease)	473,786,782.00	-473,786,782.00	4,152,310.68	-3,081,961.70	1,070,348.98	-5,922,331.21	-4,851,982.23
(1) Total comprehensive income				32,656,134.48	32,656,134.48	-5,922,331.21	26,733,803.27
(2) Appropriation of profits			4,152,310.68	-35,738,096.18	-31,585,785.50		-31,585,785.50
1. Transfer to surplus reserve			4,152,310.68	-4,152,310.68			
2. Distribution to shareholders				-31,585,785.50	-31,585,785.50		-31,585,785.50
(3) Internal transfer of equity	473,786,782.00	-473,786,782.00					
1. Capital reserve transferred to capital (or share capital)	473,786,782.00	-473,786,782.00					
4. Balance at the end of year	<u>789,644,637.00</u>	<u>185,250,172.21</u>	<u>134,912,363.87</u>	<u>364,772,936.30</u>	<u>1,474,580,109.38</u>	<u>14,435,415.69</u>	<u>1,489,015,525.07</u>

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the year 2018 | (RMB Yuan) | (English translation for reference only)

Item	2018				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
Add: Change in accounting policies				-89.53	-89.53
2. Balance at the beginning of year	789,644,637.00	187,767,058.72	73,909,386.83	53,901,736.63	1,105,222,819.18
3. Increase/decrease during the period ("-" for decrease)			467,256.33	4,205,307.00	4,672,563.33
(1) Total comprehensive income				4,672,563.33	4,672,563.33
(2) Appropriation of profits			467,256.33	-467,256.33	
1. Transfer to surplus reserve			467,256.33	-467,256.33	
4. Balance at the end of year	<u>789,644,637.00</u>	<u>187,767,058.72</u>	<u>74,376,643.16</u>	<u>58,107,043.63</u>	<u>1,109,895,382.51</u>

Item	2017				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 ("-" for decrease)	473,786,782.00	-473,786,782.00	4,152,310.68	5,785,010.66	9,937,321.34
(1) Total comprehensive income				41,523,106.84	41,523,106.84
(2) Appropriation of profits			4,152,310.68	-35,738,096.18	-31,585,785.50
1. Transfer to surplus reserve			4,152,310.68	-4,152,310.68	
2. Distribution to shareholders				-31,585,785.50	-31,585,785.50
(3) Internal transfer of equity	473,786,782.00	-473,786,782.00			
1. Capital reserve transferred to capital (or share capital)	<u>473,786,782.00</u>	<u>-473,786,782.00</u>			
4. Balance at the end of year	<u>789,644,637.00</u>	<u>187,767,058.72</u>	<u>73,909,386.83</u>	<u>53,901,826.16</u>	<u>1,105,222,908.71</u>

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

1. GENERAL

Zhejiang Shibao Company Limited (hereafter referred to as the “Company”) is a joint stock limited company approved by the document (ZHE SHANG SHI [2004] 37) (浙上市[2004]37號) issued by the Listing Affair Team (上市工作領導小組) of the People’s Government of Zhejiang Province. The Company was established by ways of promotion jointly by Zhejiang Shibao Holding Group Co., Ltd., Wu Wei Xu (吳偉旭), Wu Lang Yue (吳琅躍), Du Chun Mao (杜春茂) and Chen Wen Hong (陳文洪) on the basis of Zhejiang Shibao Steering Gear Co., Ltd.. The Company was registered and incorporated with Zhejiang Administration for Industry & Commerce on 30 April 2004. Currently, it holds the business licence with a creditability code (913300001476445210) issued by the Zhejiang Administration Bureau of Industry and Commerce. The current share capital of the Company is RMB789,644,637.00 divided into a total of 789,644,637 shares (RMB1 for each share). Of which, shares with selling restrictions include 123,160,704 A Shares; shares without selling restrictions include 449,698,933 A Shares and 216,785,000 H Shares. The Company’s Shares were listed on the GEM of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange on 16 May 2006 and 2 November 2012, respectively. On 9 March 2011, the Company’s Shares were approved to be listed and traded on the Main Board of the Hong Kong Stock Exchange.

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

The financial statements have been approved for publication at the 6th meeting of the sixth session of the Board of the Company on 22 March 2019.

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of Preparation

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

(2) Evaluation on ability of continuing operation

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

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Important Note: The Company has made specific accounting policies and accounting estimates regarding impairment on financial assets, 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 ASBE, and 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(3) Operating Cycle

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

(4) Functional Currency

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

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

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

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

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

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

(6) Preparation Basis of Consolidated Financial Statements

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

(7) Recognition Standards for Cash and Cash Equivalents

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

(8) Foreign Currency Translation

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments

1. Classification of financial assets and financial liabilities

The Company classifies its financial assets into the following three categories at initial recognition: (1) financial assets at amortised cost; (2) financial assets at fair value through other comprehensive income; and (3) financial assets at fair value through profit or loss (FVTPL).

The Company classifies its financial liabilities into the following four categories at initial recognition: (1) financial liabilities at FVTPL; (2) financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or continuing involvement in the transferred financial assets; (3) financial guarantee contracts not classified as those specified in the above item (1) or (2), and loan commitment for loans to be granted at an interest rate below the market rate which is not classified as those specified in the above item (1); and (4) financial liabilities at amortised cost.

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

(1) *Basis of recognition and initial measurement method 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. However, accounts receivable initially recognised by the Company which do not contain a significant financing component, or financing components in a contract valid for less than one year which are not considered by the Company, are initially measured at transaction price as defined in ASBE 14 — Revenue.

(2) *Subsequent measurement of financial assets*

1) Financial assets at amortised cost

They are subsequently measured at amortised cost, using the effective interest method. Any gains or losses on financial assets at amortised cost which are not part of the hedging relationship is recorded in the current profit or loss at derecognition, reclassification, amortisation using the effective interest method, or recognition of impairment.

2) Debt instrument investments at fair value through other comprehensive income

They are subsequently measured at fair value. Interest, impairment losses or gains and exchange gains or losses calculated using the effective interest method are recorded in the current profit or loss, while other gains or losses are recorded in other comprehensive income. At derecognition, cumulative gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income and recorded in the current profit or loss.

3) Equity instrument investment at fair value through other comprehensive income

They are subsequently measured at fair value. Dividends obtained (excluding those obtained as investment costs recovered) are recorded in the current profit or loss, while other gains or losses are recorded in other comprehensive income. At derecognition, cumulative gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income and recorded in retained profits.

4) Financial assets at FVTPL

They are subsequently measured at fair value, and any gain or loss therefrom (including interest and dividend incomes) is recorded in the current profit or loss, unless such financial assets are part of the hedging relationship.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments *(continued)*

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

(3) Subsequent measurement of financial liabilities

1) Financial liabilities at FVTPL

Such financial liabilities include trading liabilities (including derivative instruments classified as financial liabilities) and financial liabilities designated as at FVTPL. Such financial liabilities are subsequently measured at fair value. Changes in fair value of financial liabilities designated as at FVTPL as a result of changes in the Company's own credit risk are recorded in other comprehensive income, unless this approach creates or enlarges an accounting mismatch in the profit or loss. Other gains or losses on such financial liabilities (including interest expenses and changes in fair value other than as a result of changes in the Company's own credit risk) is recorded in the current profit or loss, unless such financial assets are part of the hedging relationship. At derecognition, cumulative gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income and recorded in retained profits.

2) Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or continuing involvement in the transferred financial assets are measured in accordance with ASBE 23 – Transfer of Financial Assets.

3) After initial recognition, financial guarantee contracts not classified as those specified in the above item (1) or (2), and loan commitment for loans to be granted at an interest rate below the market rate which is not classified as those specified in the above item (1), are subsequently measured at the higher of: (1) provisions for losses determined according to requirements on the impairment of financial instruments; (2) the initially recognised amount less accumulated amortisation determined according to ASBE 14 – Revenue.

4) Financial liabilities at amortised cost

They are measured at amortised cost, using the effective interest method. Any gains or losses on financial liabilities at amortised cost which are not part of the hedging relationship is recorded in the current profit or loss at derecognition, or amortisation using the effective interest method.

(4) Derecognition of financial assets and liabilities

1) Financial assets are derecognised when

1 contractual rights to the cash flows from the financial assets expire; or

2 the financial assets have been transferred, and such transfer meets the requirements in ASBE 23 – Transfer of Financial Assets on derecognition of financial assets; or

2) financial liabilities (or part thereof) are derecognised if present obligations for the financial liabilities (or part thereof) are released.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments *(continued)*

3. Recognition and measurement of transfer of financial assets

If the Company transfers substantially all the risks and rewards of ownership of the financial asset, the Company shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; if the Company retains substantially all the risks and rewards of ownership of the financial asset, the Company shall continue to recognise the financial asset. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and (1) if the Company has not retained control of the financial asset, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; (2) if the Company has retained control of the financial asset, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset, and relevant liabilities accordingly.

If a transfer of financial assets in their entirety qualifies for derecognition, the difference between the following two items is recorded in the current profit or loss: (1) the carrying amount of the transferred financial assets at the date of derecognition; (2) the sum of the consideration received for the transfer of financial assets and the portion of accumulated fair value adjustments previously recorded in other comprehensive income which is derecognised (with the transferred assets being debt instrument investments at fair value through other comprehensive income). If a part of a financial asset is transferred, and such transferred portion qualifies for derecognition in its entirety, the carrying amount of the financial asset prior to the transfer is allocated between the portion derecognised and the portion retained, based on their respective relative fair values at the date of transfer, and the difference between the following two items is recorded in the current profit or loss: (1) the carrying amount of the portion derecognised; (2) the sum of the consideration of the portion derecognised, and the portion of accumulated fair value adjustments previously recorded in other comprehensive income which is derecognised (with the transferred assets being debt instrument investments at fair value through other comprehensive income).

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments *(continued)*

5. Impairment on financial assets

(1) Measurement of and accounting for impairment of financial instruments

Based on expected credit losses, the Company accounts for the impairment of, and recognises provisions for losses on, financial assets at amortised cost, debt instrument investments at fair value through other comprehensive income, contract assets, lease receivables, loan commitment not classified as financial liabilities at FVTPL, and financial guarantee contracts not classified as financial liabilities at FVTPL or financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or continuing involvement in the transferred financial assets.

For purchased or originated credit-impaired assets, the Company recognises as loss reserves on the balance sheet date, only the cumulative changes in lifetime expected credit losses from initial recognition.

For receivables and contract assets arising from a transaction under ASBE 14 — Revenue which do not contain a significant financing component or financing components in a contract valid for less than one year which are not considered by the Company, the Company adopts a simplified measurement approach, and calculates the loss reserves based on the lifetime expected credit loss.

For lease receivables, and receivables and contract assets arising from a transaction under ASBE 14 — Revenue which contain a significant financing component, the Company adopts a simplified measurement approach, and calculates the loss reserves based on the lifetime expected credit loss.

In addition to financial assets in respect of which the aforesaid measurement approaches are adopted, the Company assesses whether there has been a significant increase in its credit risk, at each balance sheet date. If there has been a significant increase in the credit risk since initial recognition, the loss reserves are measured at lifetime expected credit loss; if there has not been a significant increase in the credit risk since initial recognition, the loss reserves are measured at 12-month expected credit loss.

Whether there has been a significant increase in the credit risk on a financial instrument since initial recognition is determined, using available, reasonable and supportable information including forward-looking information, and through comparing the risk of default on the financial instrument at the balance sheet date to that at the date of initial recognition. For loan commitment and financial guarantee contracts, the date on which the Company becomes the party making an irrevocable commitment is treated as the date of initial recognition, in applying requirements on impairment of a financial instrument.

The Company assumes that there has not been a significant increase in the credit risk, if a financial instrument is determined to have a low credit risk at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments *(continued)*

5. Impairment on financial assets *(continued)*

(1) Measurement of and accounting for impairment of financial instruments *(continued)*

In assessing whether there has been a significant increase in the credit risk, the following are taken into consideration:

- 1) Whether contractual payments are more than 30 days past due. If they are more than 30 days past due, the credit risk on the financial instrument is determined to have increased significantly, unless reasonable and supportable information is obtained without involving undue cost or effort, to demonstrate that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due.
- 2) Whether there has been any change in the measures of the Company for credit management of financial instruments.
- 3) Whether there has been any significant change in expected performance and repayment behavior of debtors.
- 4) Whether there has been any actual or expected significant change in results of operations of debtors.
- 5) Whether there has been any significant adverse change in regulatory, economic or technical environment in which debtors operate.
- 6) Whether there has been any adverse change in business, financial, or economic conditions which is expected to result in a significant change in the ability of debtors to repay debts.
- 7) Whether there has been any significant change in internal price indicators arising out of credit risk change.
- 8) Whether there will be a significant change in the interest rate or other terms of an existing financial instrument, if the financial instrument is originated or issued as a new financial instrument on the date of this report.
- 9) Whether there has been any significant change in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life. Such indicators include credit spread, credit default swap prices for borrowers, the length of time and extent to which the fair value has been less than amortised cost, and other market information related to the borrowers (such as change in prices of debt or equity instruments of borrowers).

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments *(continued)*

5. Impairment on financial assets *(continued)*

(1) Measurement of and accounting for impairment of financial instruments *(continued)*

- 10) Whether there has been any actual or expected significant change in the external credit rating of a financial instrument.
- 11) Whether there has been a downgrade in the actual or expected internal credit rating of a debtor.
- 12) Whether there has been a significant increase in the credit risk on other financial instruments issued by a particular debtor.
- 13) Whether there has been a significant change in the value of a collateral for a debt, or a guarantee provided by a third party, or credit enhancement quality.
- 14) Whether there has been a significant change which is expected to reduce the economic incentive of a borrower to repay a debt as scheduled in a contract.
- 15) Whether expected changes in a loan contract, including expected breach of the contract, may result in a release or amendment of contractual obligations, an offer of an interest-free period, interest rate increase, a call for additional collateral or guarantee, or other changes in a contract framework of financial instruments

Expected credit losses are remeasured at each balance sheet date, and any increase or reversal of loss reserves arising therefrom is recorded in the current profit or loss as impairment losses or gains. For a financial asset at amortised cost, the loss reserve reduces the carrying amount of the financial asset as shown in the balance sheet; for a debt instrument investment at fair value through other comprehensive income, the loss reverse is recognised in other comprehensive income without reducing the carrying amount of the financial asset.

(2) Financial instruments with credit risk assessment and expected credit loss measurement by group

Item	Grouping basis	Expected credit loss calculation approach
Other receivables — group of receivables from government	Nature	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and 12-month or lifetime expected credit loss rate.
Other receivables — group of security deposits receivable		
Other receivables — group of related dealings within the scope of combination		
Other receivables — group of imprest receivable and etc.		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments *(continued)*

5. Impairment on financial assets *(continued)*

(3) *Receivables and contract assets for which expected credit losses are measured on a collective basis*

1) Specific group and expected credit loss calculation approach

Item	Grouping basis	Expected credit loss calculation approach
Notes receivable — bank acceptance bills	Issuer of promissory notes	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.
Accounts receivable — grouping by credit risk characteristics	Grouping by age	A table of the age of accounts receivable and the lifetime expected credit losses is prepared, and the expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and 12-month or lifetime expected credit loss rate.
Notes receivable — commercial acceptance bills		
Accounts receivable — group of related dealings within the scope of combination	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.

(4) For receivables with individual risk characteristics which are obvious, the expected credit loss is calculated, according to similar credit risk characteristics of receivables (the ability of debtors to repay debts in accordance with contract terms), and the potential losses estimated on the basis of historical losses and economic conditions of the debtors, and based on the default risk exposure and lifetime expected credit loss rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(10) Inventories

1. Classifications of inventories

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

2. Cost of inventories transferred out

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

3. Basis for determining the net realisable value of inventories

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

4. Inventory system

The Company maintains a perpetual inventory system.

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

(1) Low-value consumables

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

(2) Packaging materials

Packaging materials are amortised in full when received for use.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(11) Contract Cost

Assets related to contract costs include costs of obtaining a contract and costs to fulfil a contract.

Incremental costs incurred by the Company to obtain a contract which are expected to be recovered are treated as costs of obtaining a contract and recognised as assets. Costs of obtaining a contract which are amortised over a period of less than one year are directly recorded in the current profit or loss as incurred.

Costs incurred by the Company to perform a contract which are excluded from the scope of standards on inventories, fixed assets, intangible assets or otherwise but meet the following conditions are treated as costs of obtaining a contract and recognised as assets:

1. Such costs are directly related to a contract currently or expected to be acquired, including direct labor costs, direct material costs, manufacturing costs (or similar costs), costs to be borne by customers as agreed, and other costs solely as a result of such contract;
2. Such costs help increase resources for the Company to perform obligations in the future;
3. Such costs are expected to be recovered.

Assets related to contract costs are amortised on a basis similar to that for recognising revenues from goods or services related to such assets, and are recorded in the current profit or loss.

If the fair value of assets related to contract costs exceeds the remaining consideration expected to be obtained due to the transfer of goods or services related to the assets less estimated costs to be incurred, a provision for impairment is made for the excess, which is recognised as impairment losses on assets. If the remaining consideration expected to be obtained due to the transfer of goods or services related to the assets less estimated costs to be incurred exceeds the fair value of assets, due to subsequent changes in impairment conditions existing in prior periods, the provision previously made for impairment of the assets is reversed and recorded in the current profit or loss, provided that the carrying amount of the assets after the reversal is not more than the carrying amount of the assets which would have been recorded at the date of reversal if the provision for impairment had not been made.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

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

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

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(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.

2. Determination of investment cost

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

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

2. Determination of investment cost *(continued)*

- (3) A long-term equity investment acquired otherwise than through a business combination is initially recognised at the actual consideration paid if the investment is acquired by cash, or at the fair value of the equity securities issued if the investment is acquired by issuing equity securities. For those obtained through debt restructuring, the initial investment cost is recognized pursuant to ASBE 12 — Debt Restructuring. For those obtained through exchange of non-monetary assets, the initial investment cost is recognized pursuant to ASBE 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 accounted for pursuant to the relevant regulations of ASBE 22 — Recognition and Measurement of Financial Instruments.

(2) Consolidated financial statements

- 1) For the disposal of investment in a subsidiary to loss of its right to control in stages through various transactions that are not categorized as “package deal”, prior to the loss of right to control, the capital reserve (capital premium) is adjusted with the difference between the consideration of the disposal and the entitled share of the net assets of the subsidiary that would have been entitled to by the disposed long-term equity investment and continuously accounted for from the acquisition date or combination date. If the balance of the capital premium is insufficient for the written-off, then the retained profits will be written off accordingly.

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

- 2) For the disposal of investment in a subsidiary to loss of its right to control in stages through various transactions that are categorized as “package deal”, the transactions are treated as one single transaction of disposal of a subsidiary and loss of right to control. However, prior to the loss of right to control, the difference between each of the consideration of disposal and the share of net assets of that subsidiary that would have been entitled to by the disposed investment is recognized as other comprehensive income in the consolidated financial statements and transferred to profit or loss for the period covering when the right of control is lost.

(14) Investment Property

- Investment properties include the right to use the leased land, the land held for appreciation and transfer and the leased buildings.
- Investment properties are measured at cost initially and under the cost model subsequently, and are depreciated or amortised, using a method similar to that for fixed assets and intangible assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(15) 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

(16) 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.

(17) Borrowing Costs

1. Capitalization of borrowing costs

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

2. Timing of borrowing costs capitalization

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(17) 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).

(18) 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.

(19) Partial Long-Term Asset Impairment

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(20) Staff Costs

1. Staff costs 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 staff costs from the defined benefit plan will be recognised as the service cost, the net interest on the net assets or net debts from the defined benefit plan and the changes arising from the remeasurement of the net assets or net debts from the defined benefit plan. Of which, the service cost and the net interest on the net assets or net debts from the defined benefit plan will be recognised in the current profit or loss or relevant assets cost. The changes arising from the remeasurement of the net assets or net debts from the defined benefit plan will be recognised in other comprehensive income and shall not be reversed to the profit or less in subsequent accounting periods, but the amounts recognised in other comprehensive income can be transferred within the scope of interests.

4. Accounting treatment of dismissal benefits

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(20) Staff Costs *(continued)*

5. Accounting treatment of other long-term benefits

Other long-term benefits provided by the Company to the employee, when meeting the determined conditions for withdrawal and deposit plan will conduct accounting treatment according to the determined withdrawal and deposit plan. Other long-term benefits other than this will conduct accounting treatment according to the determined benefit plan. In order to simplify the relevant accounting treatment, the generated staff costs 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.

(21) 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.

(22) Revenue

1. Revenue recognition

At contract inception, the Company assesses the contract to identify each individual obligation thereunder and to determine whether an obligation is satisfied over time or at a point in time.

A performance obligation is satisfied over time if one of the following criteria is met, otherwise it is satisfied at a point in time: (1) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs; (2) the Company's performance creates goods or services that the customer controls as the goods or services are created; (3) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date during the term of the contract.

In the case of an obligation satisfied over time, the Company shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. If the Company is unable to reasonably measure its progress towards complete satisfaction of a performance obligation and expects to recover the costs incurred, the revenue is recognised in line with cost incurred, until the progress towards complete satisfaction of a performance obligation can be reasonably determined. In the case of a performance obligation that is satisfied at a point in time, the revenue is recognised at the point in time at which a customer obtains control of relevant goods or services. To determine the point in time at which a customer obtains control of goods, the Company considers the following indicators: (1) the Company has a present right to payment for the goods, or the customer has the present obligation to pay for the goods; (2) the Company has transferred the legal title to the goods to the customer, or the customer has legal title to the goods; (3) the Company has transferred physical possession of the goods to the customer, or the customer has physical possession of the goods; (4) the Company has transferred the significant risks and rewards of ownership of the goods to the customer, or the customer has the significant risks and rewards of ownership of the asset; (5) the customer has accepted the goods; (6) other indicators that the customer obtains control of the goods.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(22) Revenue *(continued)*

2. Revenue measurement

- (1) The Company recognises as revenue the amount of the transaction price that is allocated to that performance obligation. Transaction price is the amount of consideration in a contract to which the Company expects to be entitled in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties or expected to be refunded to a customer.
- (2) If a contract has variable consideration, the Company determines the appropriate estimate based on the expected value or the most likely amount, provided that a transaction price including variable consideration shall not exceed the amount of cumulative revenue recognised which is highly unlikely to be subject to significant reversal when the uncertainty associated with the variable consideration is subsequently resolved.
- (3) If a contract contains a significant financing component, the Company determines the transaction price based on the amount that a customer would have paid when it obtains control of goods or services. The difference between the transaction price and the contract consideration is amortised, using the effective interest method, during the term of the contract. The Company does not take into consideration, significant financing components contained in a contract, if the Company expects, at contract inception, that the period between when the Company transfers goods or services to a customer and when the customer pays for the goods or services will be one year or less.
- (4) If there are two or more performance obligations under a contract, the Company shall, at contract inception, allocate the transaction price to each performance obligation in proportion to the stand-alone selling prices of goods underlying each performance obligation.

3. Methods of revenue recognition

Revenue recognition at a point in time

The Company sells automotive steering gears and other components and parts, for which it shall perform obligations at a point in time. Revenue of products for domestic sales are recognised when the following conditions are satisfied: the Company has delivered the goods to customers according to contracts and customers have accepted the same; the payment for goods have been collected, or payment receipts have been received, and relevant future economic benefits will probably flow to the Company; significant risks and rewards of ownership of the goods have been transferred; and the legal title to the goods has been transferred. Revenue of products for export sales are recognised when the following conditions are satisfied: the Company has declared the goods to customs in accordance with contracts and obtained a bill of lading; the payment for goods have been collected, or payment receipts have been received, and relevant future economic benefits will probably flow to the Company; significant risks and rewards of ownership of the goods have been transferred; and the legal title to the goods has been transferred.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(23) Government Grants

1. The government grants are recognised when (1) the Company is able to comply with the conditions attaching to the government grants; (2) the Company is able to receive the government grants. Government grants which are monetary assets are measured at the amount received or receivable. Government grants which are non-monetary assets are measured at fair value, or at nominal amount if the fair value cannot be reliably measured.

2. Judgment basis and accounting methods on the government grants relating to assets

Government grants which shall be used for constructing or otherwise forming long-term assets as specified in government documents are classified as government grants related to assets. In the absence of specific requirements in government documents, the determination is made according to basic conditions for obtaining the grants; if constructing or otherwise forming long-term assets is treated as a basic condition, the grants are classified as government grants related to assets. Government grants relating to assets are offset against the carrying amount of such assets or recognised as deferred income. Government grants 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 grants 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.

3. Judgment basis and accounting methods on the government grants relating to revenue

Other than government grants pertinent to assets, other government grants are government grants pertinent to income. The Company classifies government grants 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.

4. Government grants 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 grants that are not related to the Company's daily operations are included in the non-operating income or expenses.

(24) Deferred Tax Assets and Deferred Tax Liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(25) 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.

(26) 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.

(27) Other Significant Accounting Policies and Accounting Estimates

Recognition criteria for discontinued operation and its accounting treatment

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(28) Significant Accounting Judgments and Estimates

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

Key sources of estimation uncertainty are as follows:

1. Recognition of deferred tax assets

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

2. Financial instruments and impairment of contract assets

As stated in Note 3 Financial instruments to the financial statements, the Company accounts for the impairment of and recognise the provisions for losses on financial assets at amortised cost (notes receivable, accounts receivable, other receivables and etc.), based on expected credit losses.

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 *(continued)*

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(29) Material changes in accounting policies

1. Material changes in accounting policies

(1) *Changes in accounting policies caused by changes in ASBE*

- 1) The 2018 financial statements were prepared by the Company in accordance with the “Notice from the Ministry of Finance on Revising and Issuing the Format of Financial Statements of General Enterprises” (CAI KUAI (2018) No.15) and its interpretation and the Accounting Standards for Business Enterprises, and such change of accounting policy is subject to retrospective adjustments. Items and amounts in 2017 financial statements which are significantly affected are as follows:

Old item and amount		New item and amount	
Notes receivable	114,302,216.24	Notes receivable and accounts receivable	627,063,459.95
Accounts receivable	512,761,243.71		
Interest receivable		Other receivables	6,468,067.86
Dividends receivable			
Other receivables	6,468,067.86		
Fixed assets	592,681,978.24	Fixed assets	592,681,978.24
Disposal of fixed assets			
Construction in progress	119,801,083.84	Construction in progress	119,801,083.84
Construction materials			
Notes payable	105,976,263.36	Notes payable and accounts payable	497,568,559.83
Accounts payable	391,592,296.47		
Interest payable	882,136.11	Other payables	5,565,003.77
Dividends payable			
Other payables	4,682,867.66		
General and administrative expenses	112,815,376.43	General and administrative expenses	65,146,644.24
		Research and development expenses	47,668,732.19
Cash received relating to other operating activities (Note)	37,151,791.85	Cash received relating to other operating activities	52,398,991.85
Cash received relating to other investing activities (Note)	15,247,200.00	Cash received relating to other investing activities	

(Note): In the statement of cash flows, the government grants of RMB15,247,200.00 to be actually received in relation to assets were reclassified from “cash received relating to other investing activities” to “cash received relating to other operating activities”.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(29) Material changes in accounting policies (continued)

1. Material changes in accounting policies (continued)

(1) Changes in accounting policies caused by changes in ASBE (continued)

- 2) From 1 January 2018, the Company has adopted the ASBE No. 14 — Revenue as amended (hereinafter referred to as the New Revenue Standard), the ASBE No. 22 — Recognition and Measurement of Financial Instruments, the ASBE No. 23 — Transfer of Financial Assets, the ASBE No. 24 — Hedging and the ASBE No. 37 — Presentation of Financial Instruments amended by the Ministry of Finance (hereinafter referred to as the New Financial Instrument Standards). According to the regulations on the transition from old to new accounting standards, no adjustments were made to information for the comparative period; on the date of first-time adoption, with regard to the difference between new and old accounting standards, the retained earnings or other comprehensive income at the beginning of the reporting period is subject to retrospective adjustments.

The main impact of the adoption of the new standards on the financial statements of the Company beginning 1 January 2018 is as follows:

Item	Balance Sheet		1 January 2018
	31 December 2017	Impact of adjustment under the new standards	
Notes receivable and accounts receivable	627,063,459.95	-528,091.74	626,535,368.21
Other current assets	139,737,784.36	-130,000,000.00	9,737,784.36
Financial assets held for trading		130,000,000.00	130,000,000.00
Deferred tax assets	3,302,768.13	68,953.08	3,371,721.21
Receipts in advance	3,382,424.14	-3,382,424.14	
Contract liabilities		3,382,424.14	3,382,424.14
Undistributed profits	364,772,936.30	-395,716.48	364,377,219.82
Minority shareholders' equity	14,435,415.69	-63,422.18	14,371,993.51

1 Adoption of the New Revenue Standard

The main impact of the adoption of the New Revenue Standard on the financial statements of the Company beginning 1 January 2018 is as follows:

Item	Balance Sheet		1 January 2018
	31 December 2017	Impact of adjustment under the New Revenue Standard	
Receipts in advance	3,382,424.14	-3,382,424.14	
Contract liabilities		3,382,424.14	3,382,424.14

The Company only adjusted the total impact on contracts which had not been completed as at 1 January 2018. For contract changes occurring prior to 1 January 2018, the Company adopted a simplified approach, identifying obligations completed and not completed, determining the transaction price and allocating the transaction price between obligations completed and not completed according to the final arrangement of contract changes, for all contracts. The adoption of such simplified method has no significant impact on the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(29) Material changes in accounting policies *(continued)*

1. Material changes in accounting policies *(continued)*

(1) Changes in accounting policies caused by changes in ASBE *(continued)*

2) *(continued)*

2 Adoption of the New Financial Instrument Standards

The New Financial Instrument Standards change the classification and measurement of financial assets and liabilities, and specify three main measurement categories: measured at amortised cost; measured at fair value through other comprehensive income; measured at fair value through profit or loss. The Company carried out the above classification, in consideration of its business model and the characteristics of contractual cash flows of financial assets and financial liabilities. The equity investment shall be measured at fair value through profit or loss, but may be irrevocably elected to be measured at fair value through other comprehensive income at initial recognition (gain or loss on disposal shall not be reversed to profit or loss, but dividend income shall be included in profit or loss for the period).

The New Financial Instrument Standards specify a shift from the “incurred loss model” to the “expected credit loss model”, for the measurement of impairment of financial assets, which is applicable to financial assets at amortised cost, financial assets at fair value through other comprehensive income, contract assets, lease receivables and otherwise.

The following table is a comparison of results of classification and measurement of financial assets and financial liabilities of the Company carried out on 1 January 2018 according to the New Financial Instrument Standards (hereinafter referred to as the New CAS22) and the old financial instrument standard (hereinafter referred to as the Old CAS22):

Item	Old financial instrument standard		New Financial Instrument Standards	
	Measurement categories	Carrying value	Measurement categories	Carrying value
Cash on hand and at bank	Loans and accounts receivable	184,342,739.55	Financial assets at amortised cost	184,342,739.55
Notes receivable and accounts receivable	Loans and accounts receivable	627,063,459.95	Financial assets at amortised cost	626,535,368.21
Other receivables	Loans and accounts receivable	6,468,067.86	Financial assets at amortised cost	6,468,067.86
Short-term bank wealth management products	Available-for-sale financial assets	130,000,000.00	Financial assets at fair value through profit or loss	130,000,000.00
Notes payable and accounts payable	Other financial liabilities	497,568,559.83	Financial liabilities at amortised cost	497,568,559.83
Other payables	Other financial liabilities	5,565,003.77	Financial liabilities at amortised cost	5,565,003.77
Long-term borrowings	Other financial liabilities	11,080,000.00	Financial liabilities at amortised cost	11,080,000.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(29) Material changes in accounting policies (continued)

1. Material changes in accounting policies (continued)

(1) Changes in accounting policies caused by changes in ASBE (continued)

2) (continued)

2 Adoption of the New Financial Instrument Standards (continued)

The following table shows the reconciliation of the carrying values of original financial assets and financial liabilities of the Company to the carrying values of new financial assets and new financial liabilities classified and measured according to the New Financial Instrument Standards, which was carried out on 1 January 2018:

Item	Carrying value under the old financial instrument standard (31 December 2017)	Re-classification	Re-measurement	Carrying value under the New Financial Instrument Standards (1 January 2018)
Amortised cost				
Cash on hand and at bank				
Balances under the Old CAS22 and New CAS22	184,342,739.55			184,342,739.55
Notes receivable and accounts receivable				
Balance under the Old CAS22	627,063,459.95			
Re-measurement: Expected credit loss allowance			-528,091.74	
Balance under the New CAS22				626,535,368.21
Other receivables				
Balances under the Old CAS22 and New CAS22	6,468,067.86			6,468,067.86
Total financial assets at amortised cost	817,874,267.36		-528,091.74	817,346,175.62
At fair value through profit or loss				
Other current assets – short-term bank wealth management products				
Balance under the Old CAS22	130,000,000.00			
Less: Reclassification to at fair value through profit or loss (New CAS22)		-130,000,000.00		
Balance under the New CAS22				
Financial assets held for trading – short-term bank wealth management products				
Balance under the Old CAS22				
Add: Reclassification from available-for-sale financial assets (Old CAS22)		130,000,000.00		
Balance under the New CAS22				130,000,000.00
Total financial assets at fair value through profit or loss	130,000,000.00			130,000,000.00
Financial liabilities at amortised cost				
Notes payable and accounts payable				
Balances under the Old CAS22 and New CAS22	497,568,559.83			497,568,559.83
Other payables				
Balances under the Old CAS22 and New CAS22	5,565,003.77			5,565,003.77
Long-term borrowings				
Balances under the Old CAS22 and New CAS22	11,080,000.00			11,080,000.00
Total financial liabilities at amortised cost	514,213,563.60			514,213,563.60

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(29) Material changes in accounting policies (continued)

1. Material changes in accounting policies (continued)

(1) Changes in accounting policies caused by changes in ASBE (continued)

2) (continued)

2 Adoption of the New Financial Instrument Standards (continued)

The following table shows the reconciliation of the ending amount of the provision for impairment on original financial assets of the Company to the carrying values of the provision for impairment on new financial assets classified and measured according to the New Financial Instrument Standards, which was carried out on 1 January 2018:

Item	Loss provision under the old financial instrument standard (31 December 2017)	Re-classification	Re-measurement	Loss provision under the New Financial Instrument Standards (1 January 2018)
Loans and accounts receivable (Old CAS22)/financial assets at amortised cost (New CAS22)				
Notes receivable and accounts receivable	5,845,203.92		528,091.74	6,373,295.66
Other receivables	124,237.64		124,237.64	
Total	5,969,441.56		528,091.74	6,497,533.30

3) In 2017, the Ministry of Finance published the ASBE Interpretation 9 – Accounting of Net Losses on Equity Method Investment, the ASBE Interpretation 10 – Depreciation Method Based on Incomes from Fixed Assets, the ASBE Interpretation 11 – Amortisation Method Based on Incomes from Intangible Assets and the ASBE Interpretation 12 – Whether the Provider and the Recipient of Key Management Personnel Services are Related Parties. Since 1 January 2018, the Company has adopted the above ASBE interpretations, which has no impact on the beginning data of the Company.

4. TAXATION

(1) Major Taxes and Tax Rates

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

(Note): In accordance with the Document (CAI SHUI [2018] No.32) of the Ministry of Finance and the State Administration of Taxation, from 1 May 2018, the tax rates on sales behaviors or import goods of the Company and subsidiaries subject to the value-added tax at the former rates of 17% and 11% have been changed to 16% and 10%; the sale of the steering systems, parts and other commodities by the Company has been subject to the value-added tax at the rate of 17%/16%, and the transfer of patented technologies and provision of services and otherwise have been subject to the value-added tax at the rate of 6%, and the house leasing business and otherwise have been subject to the tax at the simplified rate of 5%; the “exemption, offset and rebate” tax policy has applied to export goods of Hangzhou Shibao Auto Steering Gear Co., Ltd. and Jilin Shibao Machinery Manufacturing Co., Ltd., both are subsidiaries of the Company; the export rebate rate on export goods previously subject to the tax rate of 17% and the export rebate rate of 17% is adjusted to 16%, which is applicable to goods exported after 1 August 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

4. TAXATION (continued)

(1) Major Taxes and Tax Rates (continued)

Details of corporate income tax rates of different entities:

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

(2) Tax Concession and Approval Documents

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Remark: Balance at the beginning of the period in the notes to financial statements means the financial statement figure as at 31 December 2017; balance at the end of the period means the financial statement figure as at 31 December 2018; the current period means 2018; and the corresponding period last year means 2017. This is also the case for the parent company.

(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	276,914.88	309,027.11
Bank deposits	120,016,270.09	160,116,685.86
Other monetary funds	9,238,164.95	23,917,026.58
Total	129,531,349.92	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 guarantee deposits of RMB8,718,164.95 for the issuance of the bank acceptance bills. Security deposits deposited for issuing a letter of credit were 520,000.00.

2. Financial assets held for trading

(1) Breakdown

Item	Balance at the end of the period	1 January 2018	Balance at the beginning of the period
Financial assets at fair value through profit or loss	60,000,000.00	130,000,000.00	N/A
Including: bank short-term wealth management products	60,000,000.00	130,000,000.00	N/A
Total	60,000,000.00	130,000,000.00	N/A

(2) Bank wealth management products

As at 31 December 2018, the Company held various wealth management products in a total amount of RMB60,000,000.00 purchased from Industrial and Commercial Bank of China Limited and Agricultural Bank of China Limited. All of the above wealth management products were bank short-term wealth management products, which could be redeemed only on the maturity date and mature within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Notes receivable and accounts receivable

(1) Breakdown

1) Breakdown by type

Type	Balance at the end of the period				Book value
	Carrying amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision (%)	
Bad debt provision on individual basis					
Including: Notes receivable					
Accounts receivable	5,575,219.98	0.90	5,012,902.80	89.91	562,317.18
Provision for bad debt by groups					
Including: Notes receivable	142,065,764.04	23.03			142,065,764.04
Accounts receivable	469,178,590.68	76.07	1,126,354.82	0.24	468,052,235.86
Total	616,819,574.70	100.00	6,139,257.62	1.00	610,680,317.08

Type	1 January 2018				Book value
	Carrying amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision (%)	
Bad debt provision on individual basis					
Including: Notes receivable					
Accounts receivable	6,263,457.30	0.99	5,845,203.92	93.32	418,253.38
Provision for bad debt by groups					
Including: Notes receivable	114,302,216.24	18.06			114,302,216.24
Accounts receivable	512,342,990.33	80.95	528,091.74	0.10	511,814,898.59
Total	632,908,663.87	100.00	6,373,295.66	1.01	626,535,368.21

Type	Balance at the beginning of the period				Book value
	Carrying amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision (%)	
Individually significant amount with bad debt provision on individual basis	599,981,366.67	94.80	1,396,878.21	0.23	598,584,488.46
Provision for bad debt by credit risk characteristics	7,391,505.86	1.17	4,448,325.71	60.18	2,943,180.15
Individually insignificant amount with bad debt provision on individual basis	25,535,791.34	4.03			25,535,791.34
Total	632,908,663.87	100.00	5,845,203.92	0.92	627,063,459.95

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Notes receivable and accounts receivable (continued)

(1) Breakdown (continued)

- 2) Notes receivable and accounts receivable with bad debt provision on individual basis at the end of the period

Name	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Accounts receivable				
Payment for goods due from Changsha Zhongtai Automobile Industrial Company Limited (長沙眾泰汽車工業有限公司) and etc.	5,575,219.98	5,012,902.80	89.91	The amount was not expected to be recovered in whole
Sub-total	5,575,219.98	5,012,902.80	89.91	

- 3) Notes receivable with provision for bad debt by groups

Item	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Bank acceptance bills	142,065,764.04		
Sub-total	142,065,764.04		

- 4) In grouping by credit risk characteristics, accounts receivable with bad debt provision according to the age and loss rate table

Age	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year (inclusive)	453,378,901.53	272,027.34	0.06
1-2 years	14,827,968.75	533,806.88	3.60
2-3 years	826,605.48	175,405.68	21.22
Over 3 years	145,114.92	145,114.92	100.00
Sub-total	469,178,590.68	1,126,354.82	0.24

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Notes receivable and accounts receivable (continued)

(2) The aging analysis is as follows:

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	595,553,860.63	96.56	292,027.34	623,169,659.26	98.46	
1-2 years	15,079,464.71	2.44	673,619.34	3,162,471.75	0.50	127,504.36
2-3 years	1,867,853.03	0.30	855,214.61	2,228,700.00	0.35	1,886,522.94
Over 3 years	4,318,396.33	0.70	4,318,396.33	4,347,832.86	0.69	3,831,176.62
Subtotal	616,819,574.70	100.00	6,139,257.62	632,908,663.87	100.00	5,845,203.92

The aging analysis of notes receivable and 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. The notes generally expire within 180 days from the date of issue. Overdue balances are reviewed regularly by senior management.

(3) Change in provision for bad debts

1) Breakdown

Item	Increase during the period		Decrease during the period		Balance at the end of the period
	1 January 2018	Provision	Recovery	Reversal	
Accounts receivable	6,373,295.66	967,964.96		1,202,003.00	6,139,257.62
Sub-total	6,373,295.66	967,964.96		1,202,003.00	6,139,257.62

2) Significant recovery or reversal of provisions for bad debts during the current period

Name	Recovered or reserved amount	Collection method
Yunnan Lifan Junma Auto Co., Ltd. (雲南力帆駿馬車輛有限公司)	1,202,003.00	Recovery by way of bank deposits
Sub-total	1,202,003.00	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Notes receivable and accounts receivable (continued)

(4) During the current period, there were not notes receivable and accounts receivable which were actually written off.

(5) 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)	67,161,471.09	14.15	57,458.44
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	42,562,513.86	8.97	25,537.51
FAW Car Co., Ltd. (一汽轎車股份有限公司)	20,015,609.44	4.22	12,009.37
Dongfeng Liuzhou Motor Co., Ltd.	18,690,315.38	3.94	11,214.19
VALEO-ARMCO ENGINE COOLING CO	17,305,000.00	3.65	10,383.00
Sub-total	165,734,909.77	34.93	116,602.51

(6) Notes receivable pledged

Item	Pledged amount at the end of the period
Bank acceptance bills	67,562,036.20
Sub-total	67,562,036.20

(7) 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	402,144,008.13	
Sub-total	402,144,008.13	

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

4. Prepayments

(1) Aging analysis

1) Breakdown

Aging	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for bad debts (%)	Book value	Carrying amount	Provision for bad debts (%)	Book value
Within 1 year	5,162,785.29	86.60	5,162,785.29	6,108,926.57	87.21	6,108,926.57
1-2 years	798,545.90	13.40	798,545.90	895,849.81	12.79	895,849.81
Total	<u>5,961,331.19</u>	<u>100.00</u>	<u>5,961,331.19</u>	<u>7,004,776.38</u>	<u>100.00</u>	<u>7,004,776.38</u>

2) As at the end of the period, there were no material prepayments aged over 1 year.

(2) The five largest prepayments

Name	Carrying amount	Percentage of the total prepayments carrying amount (%)
Benxi City Juxinda Machinery Manufacturing Co., Ltd.	500,000.00	8.39
Zhejiang Dongchang Steel Co., Ltd. (浙江東昌鋼鐵有限公司)	348,459.52	5.85
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)	319,979.67	5.37
Jingshan (Xiamen) Technology Co., Ltd. (井善(廈門)科技有限公司)	283,819.76	4.76
Zhejiang Yougang Supply Chain Management Co., Ltd. (浙江優鋼供應鏈管理有限公司)	253,680.00	4.26
Sub-total	<u>1,705,938.95</u>	<u>28.63</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

5. Other receivables

(1) Breakdown

1) Breakdown by types

Types	Carrying amount Amount	Balance at the end of the period		Book value
		(%)	Provision for bad debts Amount (%)	
Bad debt provision on individual basis				
Other receivables	358,779.64	4.73	358,779.64 100.00	
Provision for bad debt by groups				
Other receivables	7,223,954.38	95.27		7,223,954.38
Total	7,582,734.02	100.00	358,779.64 4.73	7,223,954.38

Types	Carrying amount Amount	Balance at the beginning of the period		Book value
		(%)	Provision for bad debts Amount (%)	
Individually significant amount with bad debt provision on individual basis	3,225,240.00	48.92		3,225,240.00
Provision for bad debt by 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) Other receivables with bad debt provision on individual basis at the end of the period

Name	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Other receivables				
Receivables from Shenzhen Haoyuan Technology Company Limited (深圳市好域安科技有限公司) and otherwise	358,779.64	358,779.64	100.00	The amount was not expected to be recovered
Sub-total	358,779.64	358,779.64	100.00	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

5. Other receivables (Continued)

(1) Breakdown (Continued)

3) Other receivables with provision for bad debt by groups

Group	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Receivables from government	3,225,240.00		
Deposits receivable	704,952.00		
Imprest receivable and etc.	3,293,762.38		
Sub-total	<u>7,223,954.38</u>		

(2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of amount		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
Within 1 year	2,656,192.74	35.03		2,649,979.98	40.20	
1-2 years	1,115,635.57	14.71		3,679,510.65	55.81	100,000.00
2-3 years	3,477,592.04	45.86	100,000.00	3,361.31	0.05	
Over 3 years	333,313.67	4.40	258,779.64	259,453.56	3.94	24,237.64
Sub-total	<u>7,582,734.02</u>	<u>100.00</u>	<u>358,779.64</u>	<u>6,592,305.50</u>	<u>100.00</u>	<u>124,237.64</u>

(3) Change in provision for bad debts

1) Breakdown

Item	1 January 2018		Increase during the period			Decrease during the period		Balance at the end of the period
	Provision	Recovery	Reversal	Write-off	Provision	Recovery		
Other receivables	124,237.64	234,542.00					358,779.64	
Sub-total	<u>124,237.64</u>	<u>234,542.00</u>					<u>358,779.64</u>	

2) There was no recovery or reversal of provisions for bad debts during the current period.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

5. Other receivables (continued)

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

(5) 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	704,952.00	433,251.50
Government Provisional borrowings	3,225,240.00	3,325,240.00
Imprest	3,293,762.38	1,544,867.21
Others	358,779.64	1,288,946.79
Sub-total	7,582,734.02	6,592,305.50

(6) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Aging	Percentage of other receivables carrying amount (%)	Provision for bad debts
Jilin Tiedong Economic Development Zone Administrative Committee	Provisional borrowings	3,225,240.00	2-3 years within 1 year,	42.53	
Yang Jianghui (楊江輝)	Imprest	553,000.00	1-2 years	7.29	
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	5.63	
Shenzhen Haoyuan Technology Company Limited (深圳市好域安科技有限公司)	Other	234,542.00	over 3 years	3.09	234,542.00
Li Rui	Imprest	200,000.00	within 1 year	2.64	
Sub-total		4,639,482.00		61.18	234,542.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

6. Inventories

(1) Breakdown

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Raw materials	79,925,390.95		79,925,390.95	83,960,743.50		83,960,743.50
Work-in-progress	28,061,200.70		28,061,200.70	29,858,864.15		29,858,864.15
Finished goods	188,414,111.22	3,629,447.06	184,784,664.16	163,168,376.42	1,247,992.90	161,920,383.52
Low-value consumables	3,846,226.56		3,846,226.56	3,894,672.72		3,894,672.72
Total	300,246,929.43	3,629,447.06	296,617,482.37	280,882,656.79	1,247,992.90	279,634,663.89

(2) Provision

1) Breakdown

Item	Increase during the period			Decrease during the period	
	Provision	Others	Reversal or write-off	Others	Balance at the end of the period
Finished goods	1,247,992.90	3,430,074.89		1,048,620.73	3,629,447.06
Sub-total	1,247,992.90	3,430,074.89		1,048,620.73	3,629,447.06

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

Item	Determination of specific basis for net realizable value	Reason for reversal of provision for inventory obsolescence during the current period	Reason for write-off of provision for inventory obsolescence during the current 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.	The net realizable value is determined, based on the estimated selling price of relevant products less estimated costs to be incurred for completion, estimated sales expenses and relevant taxes	Increase in the net realizable value of inventories with provision for inventory obsolescence for prior periods	During the current period, inventories with provision for inventory obsolescence at the beginning of the period were sold	1.96

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

7. Other current assets

Item	Balance at the end of the period	1 January 2018	Balance at the beginning of the period
Short-term bank wealth management products			130,000,000.00
Value added tax recoverable	12,194,850.15	9,071,136.80	9,071,136.80
Prepaid expenses	325,758.80	639,679.36	639,679.36
Prepaid corporate income tax	1,504,287.83	26,968.20	26,968.20
Total	14,024,896.78	9,737,784.36	139,737,784.36

8. Investment Property

Item	Buildings	Total
Original carrying amount		
Balance at the beginning of the period		
Increase during the period	24,285,332.35	24,285,332.35
1) Transfer-in of fixed assets	24,285,332.35	24,285,332.35
Balance at the end of the period	24,285,332.35	24,285,332.35
Accumulated depreciation and accumulated amortization		
Balance at the beginning of the period		
Increase during the period	410,281.37	410,281.37
1) Provision or amortisation	186,787.92	186,787.92
2) Transfer-in of fixed assets	223,493.45	223,493.45
Balance at the end of the period	410,281.37	410,281.37
Carrying amount		
Carrying amount at the end of the period	23,875,050.98	23,875,050.98
Carrying amount at the beginning of the period		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

9. 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	79,006,246.30	71,583,618.83	1,735,571.93	2,452,846.36	154,778,283.42
1) Purchase	1,512,559.23	30,104,272.16	1,735,571.93	2,331,251.88	35,683,655.20
2) Transfer from construction in progress	77,493,687.07	41,479,346.67		121,594.48	119,094,628.22
Decrease during the period	27,884,926.83	7,066,092.34	2,106,531.28	899,211.24	37,956,761.69
1) Disposal	3,599,594.48	7,066,092.34	2,106,531.28	899,211.24	13,671,429.34
2) Transfer to investment property	24,285,332.35				24,285,332.35
Balance at the end of the period	340,893,394.20	725,445,079.25	20,235,755.46	25,235,481.86	1,111,809,710.77
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	8,029,923.20	59,634,256.96	2,157,925.61	339,843.66	70,161,949.43
1) Provision	8,029,923.20	59,634,256.96	2,157,925.61	339,843.66	70,161,949.43
Decrease during the period	3,633,959.01	3,174,470.16	1,858,718.05	463,502.29	9,130,649.51
1) Disposal	3,410,465.56	3,174,470.16	1,858,718.05	463,502.29	8,907,156.06
2) Transfer to investment property	223,493.45				223,493.45
Balance at the end of the period	65,084,526.32	369,504,782.25	12,875,643.06	14,801,317.09	462,266,268.72
Provision					
Balance at the beginning of the period	825,717.39	245,524.61			1,071,242.00
Balance at the end of the period	825,717.39	245,524.61			1,071,242.00
Book value					
Book value at the end of the period	274,983,150.49	355,694,772.39	7,360,112.40	10,434,164.77	648,472,200.05
Book value at the beginning of the period	228,257,795.21	347,637,032.70	8,030,279.31	8,756,871.02	592,681,978.24

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

9. Fixed assets (continued)

(2) Information about fixed assets without certificate of title

Project	Carrying amount	Reason for not obtaining certificate of title
The Siping R&D building and complex plant	21,410,229.41	Still under process
Wanda real estate	2,036,243.63	Still under process
Sub-total	23,446,473.04	

10. 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	20,549,285.83		20,549,285.83	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	24,842,997.63		24,842,997.63	51,302,543.57		51,302,543.57
The New Shibao new plant (phase 2) project (新世寶新建廠房(二期)項目)	17,817,670.03		17,817,670.03	15,245,982.94		15,245,982.94
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	8,397,966.95		8,397,966.95	9,939,147.41		9,939,147.41
The research and development centre of automotive intelligent technology project	247,843.67		247,843.67	401,757.00		401,757.00
Other sundry projects	29,991,693.86		29,991,693.86	37,504,758.44		37,504,758.44
Total	101,847,457.97		101,847,457.97	119,801,083.84		119,801,083.84

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

10. Construction in progress (continued)

(2) Movement during the period

Project name	Budget (RMB0,000)	Balance at the beginning of the period	Increase during the period	Transfer to fixed assets	Other decrease	Balance at the end of the period
The precious casting and processing of automotive components project	23,536.41	5,406,894.48	15,406,027.71	263,636.36		20,549,285.83
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	36,067.10	51,302,543.57	50,946,545.79	77,406,091.73		24,842,997.63
The New Shibao new plant (phase 2) project (新世寶新建廠房(二期)項目)	2,600.00	15,245,982.94	2,571,687.09			17,817,670.03
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	81,141.67	9,939,147.41	8,660,710.98	10,201,891.44		8,397,966.95
The research and development centre of automotive intelligent technology project	15,002.56	401,757.00	373,868.45	527,781.78		247,843.67
Other sundry projects		37,504,758.44	23,182,162.33	30,695,226.91		29,991,693.86
Total		119,801,083.84	101,141,002.35	119,094,628.22		101,847,457.97

Project name	Percentage of accumulative invested amount to budget (%)	Construction progress (%)	Accumulated amount of capitalized interests	Amount of capitalized interests during the period	Interest rate of capitalized interests during the period (%)	Source of fund
The precious casting and processing of automotive components project	28.35	30				Internal fund and fund raising
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	30.76	30				Internal fund and fund raising
The New Shibao new plant (phase 2) project (新世寶新建廠房(二期)項目)	68.53	70				Internal fund
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	3.08	5				Internal fund
The research and development centre of automotive intelligent technology project	0.52	1				Internal fund
Other sundry projects						Internal fund
Total						

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

11. Intangible assets

(1) Breakdown

Item	Land use right	Patent	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				894,579.36	894,579.36
1) Purchase				894,579.36	894,579.36
Decrease during the period	75,990.00				75,990.00
1) Disposal	75,990.00				75,990.00
Balance at the end of the period	<u>105,118,627.43</u>	<u>1,281,666.67</u>	<u>48,696,372.12</u>	<u>5,785,665.00</u>	<u>160,882,331.22</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	2,169,261.59	128,167.65	4,482,490.12	784,366.59	7,564,285.95
1) Provision	2,169,261.59	128,167.65	4,482,490.12	784,366.59	7,564,285.95
Decrease during the period	35,678.00				35,678.00
1) Disposal	35,678.00				35,678.00
Balance at the end of the period	<u>21,400,649.60</u>	<u>1,046,698.28</u>	<u>43,872,048.26</u>	<u>3,928,946.48</u>	<u>70,248,342.62</u>
Book value					
Book value at the end of the period	<u>83,717,977.83</u>	<u>234,968.39</u>	<u>4,824,323.86</u>	<u>1,856,718.52</u>	<u>90,633,988.60</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>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

11. Intangible assets (continued)

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

Item	Balance at the end of the period	Balance at the beginning of the period
Outside Hong Kong including: interim lease	83,717,977.83	85,927,551.42
	<u>83,717,977.83</u>	<u>85,927,551.42</u>
Sub-total	<u>83,717,977.83</u>	<u>85,927,551.42</u>

12. Goodwill

(1) Original carrying amount of goodwill

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

(2) The process of goodwill impairment testing

1) Information of asset groups or combination of asset groups including goodwill

	Wuhu Sterling Steering System Co., Ltd. Relevant assets and liabilities as at 31 December 2018
Composition of asset groups or combination of asset groups	
Carrying amounts of asset groups or combination of asset groups	35,990,505.01
Goodwill allocated to asset groups or combination of asset groups	
Carrying amount and allocation method	8,109,314.80 included goodwill attributable to minority shareholders
Carrying amounts of asset groups or combination of asset groups including goodwill	44,099,819.81
Are asset groups or combination of asset groups consistent with the asset groups or combination of asset groups confirmed at the acquisition date or at the time of goodwill impairment test during prior years	Yes

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

12. Goodwill (continued)

(2) The process of goodwill impairment testing (continued)

2) Process, method and conclusions of goodwill impairment test

With regard to the method for confirming the recoverable amount of an asset group: The recoverable amount is determined, based on the higher of the present value of estimated future cash flows and the fair value less the cost of disposal. The fair value less the cost of disposal was expected to be higher than the present value of estimated future cash flows, so the Company used the fair value less the cost of disposal as the recoverable amount of the asset group. The fair value less the cost of disposal of an asset group is determined, based on the agreed selling price in an arm's length transaction less the cost of disposal directly attributable to the asset group. If there are no selling agreements but there is an active market, such amount shall be determined, based on the market price of the asset group less the cost of disposal. If there are no selling agreements or active markets, the fair value of the asset group less the cost of disposal is estimated, based on the best information available and with reference to the recent transaction price or result for similar asset groups in the industry. According to estimation, the recoverable amount of the asset group was RMB45,353,000.29.

The above estimation of the recoverable amount showed that there was no goodwill impairment. The Company engaged Canwin Appraisal Co., Ltd. (坤元資產評估有限公司) to estimate the recoverable amount of the asset group and issue the Asset Appraisal Report for Value Appraisal Project of Asset Group Combination of Wuhu Sterling Steering System Co., Ltd. Involved in Goodwill Impairment Test of Zhejiang Shibao Company Limited (KUN YUAN PING BAO [2019] No.69).

13. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets which are not offset

Item	Balance at the end of the period		1 January 2018	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	8,715,416.42	1,718,633.10	6,793,621.29	1,257,668.97
Profits not realized from intra-group transactions	3,439,044.23	568,700.15	3,511,963.45	670,480.12
Accrued Warranty expenses	9,126,049.87	1,508,405.77	8,723,489.97	1,443,572.12
Total	21,280,510.52	3,795,739.02	19,029,074.71	3,371,721.21

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

Item	Balance at the beginning of the period	
	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	6,402,485.18	1,188,715.89
Profits not realized from intra-group transactions	3,511,963.45	670,480.12
Accrued warranty expenses	8,723,489.97	1,443,572.12
Total	<u>18,637,938.60</u>	<u>3,302,768.13</u>

(2) Deferred income tax liabilities which are not offset

Item	Balance at the end of the period		Balance at the beginning of the period	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Asset valuation surplus arising from business combination not under the common control	<u>12,426,319.52</u>	<u>3,106,579.85</u>	13,827,335.96	3,456,833.99
Total	<u>12,426,319.52</u>	<u>3,106,579.85</u>	13,827,335.96	3,456,833.99

Taxable temporary differences include:

- There are taxable temporary differences arising from fair value adjustment on various identifiable assets and liabilities in acquiring Wuhu Sterling Steering System Co., Ltd through business combination not under the common control in stages during 2013. The balance as at the beginning of 2018 was RMB11,648,502.46. During the period, taxable temporary differences of the reversal of fair value amortization was RMB632,016.60. As at 31 December 2018, the taxable temporary differences arising from such fair value adjustment amounted to RMB11,016,485.86.
- In previous years, there were taxable temporary differences arising from fair value adjustment in various identifiable assets and liabilities in acquiring Beijing Autonics Technology Co., Ltd through business combination not under the common control. Its balance as at the beginning of 2018 was RMB2,178,833.50. During the period, taxable temporary differences of the reversal of fair value amortization was RMB768,999.84. As at 31 December 2018, the taxable temporary differences arising from such fair value adjustment amounted to RMB1,409,833.66.

(3) Analysis of unrecognized deferred income tax assets

Item	Balance at the end of the period	Balance at the beginning of the period
Deductible temporary difference	<u>1,053,288.26</u>	690,711.64
Deductible loss	<u>86,509,774.82</u>	62,041,038.60
Sub-total	<u>87,563,063.08</u>	62,731,750.24

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

Year	Balance at the end of the period	Balance at the beginning of the period	Note
2018		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	37,402,390.63		
Sub-total	86,509,774.82	62,041,038.60	

14. 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	47,719,083.17	35,728,649.17
Deposit to fulfill the contract		6,620,000.00
Total	47,719,083.17	42,348,649.17

15. Short-term borrowings

Item	Balance at the end of the period	Balance at the beginning of the period
Guaranteed loans (Note)	20,000,000.00	
Total	20,000,000.00	

(Note): The guarantee was provided by Zhejiang Shibao Holding Group Co., Ltd., Zhang Shi Quan, Zhang Shi Zhong, Zhang Lan Jun, Zhang Bao Yi, Tang Hao Han, Yiwu City He Feng Automobile Spare Parts Co., Ltd. (義烏市和豐汽車配件有限公司), Lei Wei Zhu and Wang Zheng Xiao.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

16. Notes payable and accounts payable

(1) Breakdown

Type	Balance at the end of the period	Balance at the beginning of the period
Notes payable	120,498,802.21	105,976,263.36
Accounts payable	308,232,664.17	391,592,296.47
Total	428,731,466.38	497,568,559.83

(2) Notes payable

1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bill	120,498,802.21	105,976,263.36
Sub-total	120,498,802.21	105,976,263.36

2) Aging analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 3 months	49,773,532.74	69,906,989.84
3-6 months	70,725,269.47	36,069,273.52
Sub-total	120,498,802.21	105,976,263.36

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

(3) Accounts payable

1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Operating purchase payable	287,133,565.26	366,378,596.73
Long-term assets purchase payable	21,099,098.91	25,213,699.74
Sub-total	308,232,664.17	391,592,296.47

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

16. Notes payable and accounts payable (continued)

(3) Accounts payable (continued)

2) Aging analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	297,625,066.68	379,869,070.23
1-2 years	3,744,206.81	8,982,445.81
2-3 years	4,202,557.32	572,171.65
Over 3 years	2,660,833.36	2,168,608.78
Sub-total	308,232,664.17	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 large accounts payable aged over 1 year.

17. Receipts in advance

Item	Balance at the end of the period	1 January 2018	Balance at the beginning of the period
Receipts in advance from sales of goods			3,382,424.14
Receipts in advance from house rent	2,090,618.17		
Total	2,090,618.17		3,382,424.14

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	148,610,852.09	150,297,365.71	12,869,724.74
Post-employment benefits – established withdrawal and deposit plan	1,114,841.02	14,100,965.46	14,504,445.61	711,360.87
Sub-total	15,671,079.38	162,711,817.55	164,801,811.32	13,581,085.61

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

18. Staff costs payable (continued)

(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	125,505,814.33	126,773,329.39	12,059,154.18
Staff welfare (Note)		10,005,768.25	10,005,768.25	
Social insurance	975,009.03	9,372,900.97	9,800,410.23	547,499.77
Including: Medical insurance	870,555.97	8,078,778.24	8,464,991.85	484,342.36
Work injury insurance	29,376.15	471,407.72	486,673.22	14,110.65
Maternity insurance	75,076.91	822,715.01	848,745.16	49,046.76
Housing funds	10,501.00	1,866,672.00	1,836,873.00	40,300.00
Labour union funds and employee education funds	244,059.09	1,859,696.54	1,880,984.84	222,770.79
Sub-total	<u>14,556,238.36</u>	<u>148,610,852.09</u>	<u>150,297,365.71</u>	<u>12,869,724.74</u>

(Note): Non-monetary benefits during the period RMB875,906.60 are all corresponding provision made on buildings and other assets provided to employee to use free of charge with an amount of RMB875,906.60.

(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	13,656,696.64	14,052,598.17	679,708.35
Unemployment insurance	39,231.14	444,268.82	451,847.44	31,652.52
Sub-total	<u>1,114,841.02</u>	<u>14,100,965.46</u>	<u>14,504,445.61</u>	<u>711,360.87</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.

19. Taxes payable

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax	253,849.07	4,713,102.33
Corporate income tax	602,699.27	919,522.51
Withhold of individual income tax	167,131.45	409,429.01
Urban maintenance and construction tax	32,034.74	452,983.26
Property tax	696,159.66	815,904.32
Others	154,080.50	941,131.34
Total	<u>1,905,954.69</u>	<u>8,252,072.77</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

20. Other payables

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Interests payable	910,048.62	882,136.11
Other payable	974,364.77	4,682,867.66
Total	1,884,413.39	5,565,003.77

(2) Interests payable

Breakdown

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	882,136.12	882,136.11
Interest of short-term borrowings	27,912.50	
Sub-total	910,048.62	882,136.11

(3) Other payable

1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Deposits	664,605.00	3,799,521.26
Labour service company management fees	76,876.50	159,965.22
Others	232,883.27	723,381.18
Sub-total	974,364.77	4,682,867.66

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

21. Contract liabilities

Item	Balance at the end of the period	1 January 2018	Balance at the beginning of the period
Receipts in advance from sale of commodities	3,902,211.90	3,382,424.14	N/A
Total	3,902,211.90	3,382,424.14	N/A

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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)	10,266,805.23	8,770,934.52
Accrued expenses	18,038,269.86	15,184,087.45
Total	28,305,075.09	23,955,021.97

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

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 borrowings (Note 2)	8,800,000.00	8,800,000.00
Guaranteed loans (Note 3)		2,000,000.00
Total	9,080,000.00	11,080,000.00

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

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

(Note 3): 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) published by the Science and Technology Bureau of Wuhu City and the Science and Technology Innovation Bureau of the Economic Development Zone and the Notice on Announcement of Acceptance and Evaluation Results for the Third "Small Technology Giants" (Wu Chuang Xin Chuang Ye Zu [2018] No.3) published by the Wuhu Technology Innovation and Entrepreneurship Leading Group, Wuhu Sterling Steering System Co., Ltd., a subsidiary, passed the "Small Technology Giants" project acceptance inspection, and the original long-term borrowings were transferred to government grants. During the current period, the Company transferred the above long-term borrowings to government grants related to income.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

23. Long-term borrowings (continued)

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

Item	Balance at the end of the period	Balance at the beginning of the period
Current or within 1 year		
Over 1 year but within 2 years		
Over 2 years but within 5 years	9,080,000.00	11,080,000.00
Over 5 years		
Sub-total	9,080,000.00	11,080,000.00
Including: Long-term loans due within 1 year		
Long-term loans due over 1 year	9,080,000.00	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 (Note)	Balance at the end of the period	Reason
Government grants	46,477,939.98	6,629,200.00	11,139,372.18	41,967,767.80	
Total	46,477,939.98	6,629,200.00	11,139,372.18	41,967,767.80	

(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 RMB10,266,805.23 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

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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				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	-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				103,367,019.00	103,367,019.00	553,065,952.00
H Shares	216,785,000.00						216,785,000.00
Total	789,644,637.00						789,644,637.00

(2) Increase/decrease during the period

The 103,367,019 initial public offer A Shares of the Company held by Zhejiang Shibao Holding Group Co., Ltd. was released from the lock-up on 9 November 2018, accounts for 18.04% of the total number for A Shares of the Company, representing 13.09% of the total share capital of the Company.

26. Capital reserve

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Share premium	178,805,783.17		2,916,078.43	175,889,704.74
Other capital reserve	6,444,389.04			6,444,389.04
Total	185,250,172.21		2,916,078.43	182,334,093.78

(2) Increase/decrease during the period

According to the Civil Judgment ((2017) Zhe 0191 Min Chu No.3093) issued by the People's Court of Hangzhou Economic and Technological Development Zone on May 2018, 20% equity interest of Hangzhou New Shibao Electric Power Steering Co., Ltd., originally registered under the name of Wang Yong Chao (王朝久), an individual shareholder, was transferred to the Company at nil consideration, and the share of net assets of subsidiaries from the acquisition date correspondingly reduced the capital reserve by RMB2,916,078.43. Hangzhou New Shibao Electric Power Steering Co., Ltd. completed the industrial and commercial registration of changes on 11 September 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

27. Surplus reserve

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory reserve funds	134,912,363.87	467,256.33		135,379,620.20
Total	134,912,363.87	467,256.33		135,379,620.20

(2) Increase/decrease during the period

According to the Articles of Association, 10% of the net profit attributable to the Parent was appropriated to the statutory surplus reserve totaling RMB467,256.33 by the Company.

28. Retained earnings

(1) Breakdown

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 (increase +, decrease-)	-395,716.48	
Retained earnings at the beginning of the year after adjustment	364,377,219.82	367,854,898.00
Add: Net profit attributable to equity holders of the Parent	7,278,368.34	32,656,134.48
Less: Transfer to statutory reserve funds	467,256.33	4,152,310.68
Dividends payable		31,585,785.50
Retained earnings at the end of the period	371,188,331.83	364,772,936.30

(2) Adjustment of retained earnings at the beginning of the period

For details, see Note 3 (29) Changes in Significant Accounting Policies to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement

1. Revenue/cost of sales

(1) Breakdown

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Revenue from main business	1,110,658,761.08	926,099,671.85	1,138,328,762.71	944,003,187.42
Revenue from other business	22,438,968.77	12,762,840.43	15,927,505.25	5,371,873.26
Total	<u>1,133,097,729.85</u>	<u>938,862,512.28</u>	<u>1,154,256,267.96</u>	<u>949,375,060.68</u>

(2) Performance obligation

The Company sells automotive steering gears other components and parts in the capacity of main responsible person, for which it shall perform obligations upon the delivery of products. There was a credit period of 90-180 days for the contract price, and there were no significant financing components or variable considerations.

2. Business taxes and surcharges

Item	Balance for the current period	Balance for the corresponding period last year
Urban maintenance and construction tax	1,551,741.89	2,537,389.15
Education surcharge	669,956.16	1,100,385.12
Local education surcharge	444,532.84	733,590.09
Stamp duty	1,057,114.83	697,678.59
Real estate tax	3,385,765.73	2,156,359.97
Land use tax	1,300,057.43	2,810,418.50
Vehicles and vessels use tax	38,353.78	27,111.13
Environmental protection tax	793.75	
Total	<u>8,448,316.41</u>	<u>10,062,932.55</u>

3. Selling expenses

Item	Balance for the current period	Balance for the corresponding period last year
Transportation cost	28,113,605.46	26,498,957.83
Warranty fee	25,809,509.60	21,772,201.09
Wages, welfare and bonuses	10,383,132.58	9,873,446.50
Travelling expenses	3,035,088.63	2,903,651.34
Entertainment charge	3,660,366.62	3,360,488.55
Depreciation of fixed assets	273,870.30	365,517.98
Others	7,070,379.01	6,338,688.84
Total	<u>78,345,952.20</u>	<u>71,112,952.13</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement

4. General and administration expenses

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	42,422,317.47	34,310,816.13
Office cost	5,220,397.80	5,822,789.43
Professional service fee	7,455,332.00	6,091,098.11
Depreciation of fixed assets	3,970,761.90	4,151,314.14
Amortization of intangible assets	4,823,881.39	6,492,150.85
Other taxation	217,269.87	420,558.10
Travelling expenses	3,633,641.62	2,962,149.58
Entertainment charge	1,968,079.15	2,697,608.05
Others	2,309,069.28	2,198,159.85
Total	72,020,750.48	65,146,644.24

(2) The general and administration expenses for the current period included 2018 audit fee RMB680,000.00 (2017: RMB680,000.00).

5. Research and development expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	30,876,716.04	20,444,186.27
Direct investment	22,854,224.68	18,545,787.20
Energy costs	1,037,242.18	905,619.73
Depreciation of fixed assets	6,327,046.39	4,659,277.35
Amortization of intangible assets	1,315,470.38	1,048,282.47
Others	4,045,911.50	2,065,579.17
Total	66,456,611.17	47,668,732.19

6. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	1,830,859.94	1,020,578.90
Including: Bank loans, interests of other loans fully repayable within 5 years	1,830,859.94	1,020,578.90
Bank loans, interests of other loans not fully repayable within 5 years		
Interest income	-3,672,267.93	-1,767,119.27
Other	1,394,495.41	226,858.39
Including: Net exchange gains and losses	7,326.32	-79,065.03
Total	-446,912.58	-519,681.98

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement

7. Assets impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Provision for inventories losses	3,430,074.89	1,165,061.27
Bad debts losses		-1,368,309.30
Total	3,430,074.89	-203,248.03

8. Credit impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debt losses on accounts receivable	-234,038.04	N/A
Bad debt losses on other receivables	234,542.00	N/A
Total	503.96	N/A

9. Other gains

Item	Balance for this period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Government grants related to assets	9,643,501.47	7,860,298.13	9,643,501.47
Government grants related to income	10,323,561.38	5,698,074.41	10,323,561.38
Total	19,967,062.85	13,558,372.54	19,967,062.85

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.

10. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Gains from bank short-term products	4,275,660.37	7,975,271.12
Total	4,275,660.37	7,975,271.12

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

11. Gains from disposal of assets

Item	Balance for this period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Gains from disposal of fixed assets	11,936,679.95	-689,980.17	11,936,679.95
Gains from disposal of intangible assets	-40,312.00		-40,312.00
Total	11,896,367.95	-689,980.17	11,896,367.95

12. Non-operating income

Item	Balance for this period	Balance for the same period last year	Amount recognized as non-recurring during the period
Transfer from payments not incurred	275,999.93	140,260.81	275,999.93
Others	32,431.63	124,492.64	32,431.63
Total	308,431.56	264,753.45	308,431.56

13. Non-operating expenses

Item	Balance for the current period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Local water conservancy construction fund	132,588.26	275,552.07	
Late payment penalty for tax	364,693.21		364,693.21
Others	38,012.23	127,576.45	38,012.23
Total	535,293.70	403,128.52	402,705.44

14. Income tax expenses

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Current income tax	700,647.46	5,436,046.82
Deferred income tax	-774,271.95	148,314.51
Total	-73,624.49	5,584,361.33

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

14. Income tax expenses (continued)

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

Item	Balance for the current period	Balance for the corresponding period last year
Total profit	1,892,150.07	32,318,164.60
Income tax expenses based on tax rate of the parent company	473,037.52	8,079,541.17
Effects of different applicable tax rates on subsidiaries	-510,197.91	-2,391,855.14
Effects of adjusting income tax of prior periods	35,400.97	174,021.51
Effects of non-taxable income	-1,856,014.50	-823,240.08
Effects of including and excluding R&D expenses	-6,374,144.70	-1,668,879.17
Effects of non-deductible costs, expenses and losses	1,691,643.17	850,625.13
The effect of utilization of deductible loss arising from deferred income tax assets not previously recognized		-987,188.06
The effect of deductible temporary difference arising from unrecognized deferred income tax assets or deductible loss during the period	6,466,650.96	2,351,335.97
Income tax expenses	-73,624.49	5,584,361.33

(3) No provision for Hong Kong profits tax has been made (2017: Nil) as the Company and its other subsidiaries had no profits generated in or arising from Hong Kong in 2018.

(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	23,917,026.58	27,829,708.19
Receipt of government grants (Note)	14,952,761.38	20,819,600.57
Advance received from related parties	3,483,967.28	
Receipt of security deposit	160,100.00	353,000.00
House rent received	3,030,400.00	
Interest income	3,672,267.93	1,767,119.27
Others	1,125,333.56	1,629,563.82
Total	50,341,856.73	52,398,991.85

Note: In the statement of cash flows, government grants related to assets of RMB15,247,200.00 for the corresponding period last year was transferred from "Cash received relating to other investing activities" to "Cash received relating to other operating activities". For details, see 3 (29) Material Changes in Accounting Policies.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

2. Cash paid in relation to other operating activities

Item	Balance for the current period	Balance for the corresponding period last year
Cash paid as selling expenses	72,030,280.90	61,595,787.09
Cash paid as general and administrative expenses	17,272,422.07	19,833,646.85
Cash paid as research and development expenses	6,198,726.23	2,971,198.90
Advance paid to related parties	3,483,967.28	
Payment of security deposits	726,700.00	635,915.49
Payment of deposits including banker's acceptances	9,238,164.95	23,917,026.58
Others	3,298,755.40	2,679,812.96
Total	112,249,016.83	111,633,387.87

3. Cash received in relation to other investing activities

Item	Balance for the current period	Balance for the corresponding period last year
Contract performance bond recovered	6,620,000.00	
Total	6,620,000.00	

4. Cash paid relating to other investing activities

Item	Balance for the current period	Balance for the corresponding period last year
Construction contract performance bond returned	3,100,000.00	
Total	3,100,000.00	

5. Cash paid in relation to other financing activities

Item	Balance for the current period	Balance for the corresponding period last year
Payment of Up-front fee of non-public Issuance		755,977.61
Total		755,977.61

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

6. Supplemental information on the statement of cash flows

(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	1,965,774.56	26,733,803.27
Add: Provision for impairment to assets	3,430,578.85	-203,248.03
Depreciation of fixed assets, oil and gas assets and production	70,348,737.35	64,559,912.20
Amortization of intangible assets	7,564,285.95	9,229,126.20
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-11,896,367.95	689,980.17
Losses on write-off of fixed assets ("-" for gains)		
Losses on changes of fair value ("-" for gains)		
Financial expenses ("-" for gains)	1,806,827.59	399,233.95
Investment losses ("-" for gains)	-4,275,660.37	-7,975,271.12
Decrease in deferred income tax assets ("-" for increase)	-424,017.81	935,378.28
Increase in deferred income tax liabilities ("-" for decrease)	-350,254.14	-787,063.77
Decrease in inventories ("-" for increase)	-20,412,893.37	-35,801,165.38
Decrease in operational receivables ("-" for increase)	4,871,743.04	-97,410,056.81
Increase in operational payables ("-" for decrease)	-65,478,397.00	16,774,172.99
Others		
Net cash flows from operating activities	-12,849,643.30	-22,855,198.05
2) Significant investment and financing activities not related to cash receipts and payments:		
Debt transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3) Net change in cash and cash equivalents:		
Cash at the end of the period	120,293,184.97	160,425,712.97
Less: Cash at the beginning of the period	160,425,712.97	117,330,581.92
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	-40,132,528.00	43,095,131.05

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

(2) Cash and cash equivalents

Item	Balance for the current period	Balance for the corresponding period last year
1) Cash	120,293,184.97	160,425,712.97
Including: Cash on hand	276,914.88	309,027.11
Bank deposit readily available	120,016,270.09	160,116,685.86
Other monetary fund readily available		
Central bank deposit readily available		
Interbank deposit		
Interbank offer		
2) Cash equivalents		
Including: Bond investment due in three months		
3) Closing balance of cash and cash equivalents	120,293,184.97	160,425,712.97
Including: Restricted cash and cash equivalents of parent or group subsidiaries		

Closing balance of cash and cash equivalents in the statement of cash flows for the year 2018 was RMB120,293,184.97 and closing balance of cash on hand and at bank in the balance sheet as at 31 December 2018 was RMB129,531,349.92. The difference of RMB9,238,164.95 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 this period	Balance for the corresponding period last year
Transferred endorsed commercial bill	884,102,700.32	735,956,818.47
Including: bills payable	863,290,453.13	691,400,592.40
Payment for the purchase of long-term assets such as fixed assets	20,812,247.19	44,556,226.07

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others

1. Assets with restrictions in ownership or use rights

Item	Carrying amount at the end of the period	Reason for restriction
Monetary funds	9,238,164.95	L/C and security deposit for the notes pool
Bills receivable	67,562,036.20	Pledge of the notes pool
Fixed assets	4,282,883.50	Borrowing credit mortgage
Intangible assets	3,194,887.61	Borrowing credit mortgage
Total	<u>84,277,972.26</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			1,678,505.32
Including: US Dollar	14,939.67	6.8632	102,533.94
Euro	200,829.76	7.8473	1,575,971.38
Trade receivables			1,260,043.79
Including: Euro	160,570.36	7.8473	1,260,043.79

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants

(1) Breakdown

- 1) Government grants relating to assets

Total-value method

Item	Government grants at the beginning of the period	Addition of grants during the period	Amortization during the period (Note)	Government grants at the end of the period	Statement item of amortization during the period	Description
Special funds for adjustment and improvement project for traditional industry bases including the Northeast Area	12,649,166.68		3,189,999.96	9,459,166.72	Other gains	Note 1
Subsidy funds for the precious casting and processing of automotive components project	4,330,076.81		102,960.36	4,227,116.45	Other gains	Note 2
Special funds for establishment of a platform for public services provided in foreign trading	1,414,330.30		365,178.60	1,049,151.70	Other gains	Note 3
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	2,491,360.00		649,920.00	1,841,440.00	Other gains	Note 4
Heavy load hydraulic rack-and-pinion steering gear for high class market	295,217.68		77,013.36	218,204.32	Other gains	Note 5
Subsidies for research and development equipment	163,166.68		32,633.33	130,533.35	Other gains	Note 6
Technological improvement project for quality enhancement of rack-and-pinion steering gears	5,080,961.60		743,555.40	4,337,406.20	Other gains	Note 7
Construction project for development service platform of automotive steering system parts and components	21,251,869.51		3,446,249.16	17,805,620.35	Other gains	Note 8
The annual production of 100,000 electric power steering system project	1,270,000.00		141,111.11	1,128,888.89	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	6,000,000.00	684,848.50	9,315,151.50	Other gains	Note 10
Technical improvement project of production capacity increasing of 500,000 units/sets of steering gear	1,402,725.24		163,424.28	1,239,300.96	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
Comprehensive rewards for technical innovation		629,200.00	46,607.41	582,592.59	Other gains	Note 13
Sub-total	55,248,874.50	6,629,200.00	9,643,501.47	52,234,573.03		
Including: deferred income	46,477,939.98			41,967,767.80		
Other current liabilities	8,770,934.52			10,266,805.23		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants (continued)

(1) Breakdown (continued)

1) Government grants relating to assets (continued)

Total-value method (continued)

- (Note 1) "Reply of the Office of NDRC on Investment Project for Adjustment and Improvement for Traditional Industry Bases Including the Northeast Area within National Budget in 2010" 《(國家發展改革委辦公廳關於東北等老工業基地調整改造2010年中央預算內投資項目的復函)》(Fa Gai Ban Chan Ye (2010) No.2684) (發改辦產產業[2010] 2684號)
- (Note 2) "Description of Subsidy Funds for the Precious Casting and Processing of Automotive Components Project" (《關於汽車零部件精密鑄件及加工建設項目補貼資金的說明》)
- (Note 3) "Notice of Granting of Special Funds for Public Services Provided in Foreign Trading 2013" (《關於下達浙江省2013年度外貿公共服務平台建設專項資金的通知》) (Hang Cai Qi (2014) No.648) (杭財企[2014] 648號) issued by Hangzhou Bureau of Finance and Hangzhou Foreign Trade and Economic Cooperation Bureau (杭州市財政局、杭州市對外貿易經濟合作局) and "Notice of Granting of Special Funds for Public Services Provided in Foreign Trading 2012" (《關於下達浙江省2012年度外貿公共服務平台建設專項資金的通知》) (Hang Cai Qi (2013) No. 898) (杭財企[2013] 898號) issued by Hangzhou Bureau of Finance and Hangzhou Foreign Trade and Economic Cooperation Bureau (杭州市財政局、杭州市對外貿易經濟合作局)
- (Note 4) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou in 2013" (《關於下達2013年杭州市工業統籌資金重大創新等項目資助資金的通告》) (Hang Cai Qi (2013) No.1550) (杭財企[2013] 1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee (杭州市財政局、杭州市經濟和信息化委員)
- (Note 5) "Notice of Granting of Supporting Fund of Industrial Pooling of Capital for Major Innovation Projects of Hangzhou in 2013" (《關於下達2013年杭州市工業統籌資金重大創新等項目資助資金的通告》) (Hang Cai Qi (2013) No.1550) (杭財企[2013] 1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee.
- (Note 6) "Notice of Granting of Special Fund Program (Incentives and Subsidies) on Building Innovative Province of Anhui Province 2014" (《關於下達2014年安徽省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

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants (continued)

(1) Breakdown (continued)

1) Government grants relating to assets (continued)

Total-value method (continued)

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

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

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

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

Note 13 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 People's Government of Wuhu City (Wu Zheng Ban [2017] No. 9)

Note: In this period, deferred income directly credited other gains amounted to RMB872,566.95, deferred income which will be amortized within 1 year under other current assets transferred to other gains amounted to RMB8,770,934.52.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants (continued)

(1) Breakdown (continued)

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

Item	Amount	Presented items	Description
House acquisition awards	2,840,581.07	Other gains	Acquisition Plan for Housing on Industrial Land in Fotang Town published by the People's Government of Fotang Town, Yiwu City
Government grants for small technology giants	2,000,000.00	Other gains	Incubating Measures for the Enterprise Innovative Ability under the "Small Technology Giants" of Wuhu City" (Wu Zheng Ban Notification No. [2014] 15) published by the Science and Technology Bureau of Wuhu City and the Science and Technology Innovation Bureau of the Economic Development Zone
Funding for research and development investment of enterprises in the development zone in 2016	1,067,300.00	Other gains	Notice of the Payment of 2016 R&D Investment Subsidy of Development Zone (Hang Jing Kai Guan Fa [2018] No.80) published by the Management Committee of the Economic Development Zone of Hangzhou
Rewards and subsidies under scientific and technological innovation and entrepreneurship policies in 2017	1,000,000.00	Other gains	Notice on Rewards (Subsidies) under Scientific and Technological Innovation and Entrepreneurship Policies in 2017 (Hang Jing Kai Guan Fa [2018] No.161) published by the Management Committee of the Economic Development Zone of Hangzhou
Land use tax rewards	836,100.00	Other gains	Notice on Adjustment of Urban Land Use Tax Rewards in Wuhu Economic and Technological Development Zone published by the FINANCE BUREAU in the Economic Development Zone (Kai Ban [2015] No.112)
Industrial development funds	588,500.00	Other gains	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)
Subsidies under the SME and private economy development fund project in provincial-level key industrial development funds	400,000.00	Other gains	Notice on Investment Plan for SME and Private Economy Development Fund Project in Provincial-level Key Industrial Development Funds in 2017 (Si Gong Xin Ban Lian [2018] No.13) published by the Industry and Information Technology Bureau of Siping City and the Finance Bureau of Siping City
Research and development project award	400,000.00	Other gains	Notice on Projects under Key Research and Development Plans in Anhui Province in 2018 (Ke Ji [2018] No.34) published by the Anhui Province Department of Science and Technology

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants (continued)

(1) Breakdown (continued)

2) (continued)

Item	Amount	Presented items	Description
New hi-tech enterprise award	310,000.00	Other gains	Notice on Several Policies of Wuhu for Accelerating the Construction of National Innovation Demonstration Zone in Wuhu (Wu Zheng [2017] No.29) published by the People's Government of Wuhu
The portion of industrial enterprise taxes which was kept by the local government in 2016	192,177.00	Other gains	Several Opinions on Further Reducing the Burden of Enterprises Arising out of Rewarding and Enhancing the Competitiveness of Enterprises (Zhe Zheng Ban Fa [2018] No.99) published by the General Office of the People's Government of Zhejiang Province
Personnel stabilization subsidies	138,234.09	Other gains	Announcement on the List of Second Enterprises Entitling to Personnel Stabilization Subsidies in Hangzhou City in 2017 published by Hangzhou Employment Management Service Bureau
Rewards for meeting the safety production standard in 2017	100,000.00	Other gains	Notice on Application for Funds to be Used for Rewarding Enterprises Meeting the Safety Production Standard in 2017 (Hang Jing Kai Guan Fa [2018] No.9) published by the Finance Bureau of Hangzhou Economic and Technological Development Zone
Other government grants	<u>450,669.22</u>	Other gains	
Sub-total	<u>10,323,561.38</u>		

(2) Government grants credited to the current profit or loss for the period amounted to RMB19,967,062.85.

4. Interest expenses

Item	During the period	Corresponding period of the previous year
Interest expenses	1,830,859.94	1,020,578.90
Including: Bank loans, interests of other loans fully repayable within 5 years	1,830,859.94	1,020,578.90
Interests of other loans not fully repayable within 5 years		
Less: Capitalized interests		
Finance cost — interest expenses	1,830,859.94	1,020,578.90

During 2017 and 2018, there was no interest capitalization.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

6. OWNER'S EQUITY IN OTHER ENTITIES

(1) Owner's equity in significant subsidiaries

1. Particulars of significant subsidiaries

Name of subsidiary	Principal place of business	Place of registration	Nature of business	Percentage of shareholding (%)		Method of ownership
				Direct	Indirect	
Hangzhou Shibao Auto Steering Gear Co., Ltd.	Zhejiang Hangzhou/PRC	Zhejiang Hangzhou/PRC	Manufacturing	100.00		Establishment
Hangzhou New Shibao Electric Power Steering Co., Ltd.	Zhejiang Hangzhou/PRC	Zhejiang Hangzhou/PRC	Manufacturing	90.00		Establishment
Jilin Shibao Machinery Manufacturing Co., Ltd.	Jilin Siping/PRC	Jilin Siping/PRC	Manufacturing	100.00		Establishment
Siping Steering Gear Co., Ltd. (Note)	Jilin Siping/PRC	Jilin Siping/PRC	Manufacturing	100.00		Establishment
Beijing Autonics Technology Co., Ltd.	Beijing/PRC	Beijing/PRC	Manufacturing	100.00		Business combination not under common control
Wuhu Sterling Steering System Co., Ltd.	Anhui Wuhu/PRC	Anhui Wuhu/PRC	Manufacturing	57.89		Business combination not under common control
Erdos Sterling Steering System Co., Ltd.	Inner Mongolia/PRC	Inner Mongolia/PRC	Manufacturing		57.89	Business combination not under common control

Note: During the current period, Jilin Shibao Machinery Manufacturing Co., Ltd., a subsidiary of the Company merged Siping Steering Gear Co., Ltd., a subsidiary of the Company, which was cancelled on 29 December 2018, while Jilin Shibao Machinery Manufacturing Co., Ltd. completed the industrial and commercial registration of changes on 3 January 2019.

2. Significant non-wholly owned subsidiaries

Name of subsidiary	Percentage of shareholding of minority shareholders	Profit/loss contributed to minority shareholders of the current period	Declared dividends distribution to minority shareholders of the current period	Balance of minority shareholders' equity at the end of the period
Hangzhou New Shibao Electric Power Steering Co., Ltd.	10.00	-1,387,916.95		-586,225.83
Wuhu Sterling Steering System Co., Ltd.	42.11	-3,924,676.83		12,561,703.99

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

(1) Assets and liabilities

Name of subsidiary	As at the end of the period					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou New Shibao Electric Power Steering Co., Ltd.	212,227,189.95	73,949,960.97	286,177,150.92	291,081,524.79	683,973.10	291,765,497.89
Wuhu Sterling Steering System Co., Ltd.	90,539,784.50	53,526,433.08	144,066,217.58	109,883,045.84	4,352,480.74	114,235,526.58

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

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

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

(2) Profit/loss and cash flows

Name of subsidiary	Balance for the current period			Cash flows from operating activities
	Revenue	Net profit	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	360,577,193.06	1,459,610.72	1,459,610.72	8,215,310.41
Wuhu Sterling Steering System Co., Ltd.	75,071,297.78	-9,320,058.96	-9,320,058.96	5,397,579.48

Name of subsidiary	Balance for the corresponding period last year			Cash flows from operating activities
	Revenue	Net profit	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	257,548,019.26	-10,142,163.87	-10,142,163.87	8,767,824.20
Wuhu Sterling Steering System Co., Ltd.	117,638,732.37	-6,838,475.53	-6,838,475.53	-1,093,438.86

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	807,435,621.38	947,874,267.36
Including: Cash on hand and at bank	129,531,349.92	184,342,739.55
Short-term bank wealth management products	60,000,000.00	130,000,000.00
Notes receivable	142,065,764.04	114,302,216.24
Accounts receivable	468,614,553.04	512,761,243.71
Other receivables	7,223,954.38	6,468,067.86
Financial liabilities	459,695,879.77	514,213,563.60
Including: Bank borrowings	29,080,000.00	11,080,000.00
Notes payable	120,498,802.21	105,976,263.36
Accounts payable	308,232,664.17	391,592,296.47
Interests payable	910,048.62	882,136.11
Other payables	974,364.77	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.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(2) Credit risk

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

1. Credit risks of the Company arise primarily from bank deposits and accounts receivable. In order to control the relevant risks above, the Company has taken the following measures respectively.

(1) *Bank deposits*

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

(2) *Accounts receivable*

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

As the Company trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As at 31 December 2018, the Company had certain concentration of credit risk as 34.93% (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.

The maximum credit risk exposure of the Company was the carrying amount of each financial asset in the balance sheet.

2. 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				
	Neither past due nor impaired	Past due but not impaired			Total
		Within 1 year	1-2 years	Over 2 years	
Cash on hand and at bank	129,531,349.92				129,531,349.92
Short-term bank wealth management products	60,000,000.00				60,000,000.00
Notes receivable	142,065,764.04				142,065,764.04
Other receivables	7,223,954.38				7,223,954.38
Total	338,821,068.34				338,821,068.34

Item	Balance at the beginning the period				
	Neither past due nor impaired	Past due but not impaired			Total
		Within 1 year	1-2 years	Over 2 years	
Cash on hand and at bank	184,342,739.55				184,342,739.55
Short-term bank wealth management products	130,000,000.00				130,000,000.00
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	943,980,466.67	3,034,967.39	342,177.06	516,656.24	947,874,267.36

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(2) Credit risk (continued)

3. Balance of provision for losses on financial instruments at the beginning and the end of the period

Item	1 January	Increase during the period			Decrease during the period			Balance at the end of the period
	2018	Provision	Recovery	Others	Reversal	Write-off	Others	
Lifetime expected credit losses (stage 3, non-purchased or originated credit-impaired financial instruments)								
Other receivables	124,237.64	234,542.00						358,779.64
Sub-total	124,237.64	234,542.00						358,779.64
Lifetime expected credit loss (items which are provided for, based on the lifetime expected credit loss)								
Notes receivable								
Accounts receivable	6,373,295.66	967,964.96			1,202,003.00			6,139,257.62
Sub-total	6,373,295.66	967,964.96			1,202,003.00			6,139,257.62

(3) Liquidity risk

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

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

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

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	129,531,349.92	129,531,349.92	129,531,349.92		
Short-term bank wealth management products	60,000,000.00	60,000,000.00	60,000,000.00		
Notes receivable	142,065,764.04	142,065,764.04	142,065,764.04		
Accounts receivable	468,614,553.04	468,614,553.04	468,614,553.04		
Other receivables	7,223,954.38	7,223,954.38	7,223,954.38		
Total	807,435,621.38	807,435,621.38	807,435,621.38		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

1. Classification of financial assets based on the remaining maturity (continued)

Item	Carrying value	Balance at the beginning of the period			
		Contractual undiscounted amount	Within 1 year	1–3 years	Over 3 years
Cash on hand and at bank	184,342,739.55	184,342,739.55	184,342,739.55		
Short-term bank wealth management products	130,000,000.00	130,000,000.00	130,000,000.00		
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	947,874,267.36	947,874,267.36	947,874,267.36		

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	29,080,000.00	29,606,662.50	20,484,662.50	9,122,000.00	
Notes payable	120,498,802.21	120,498,802.21	120,498,802.21		
Accounts payable	308,232,664.17	308,232,664.17	308,232,664.17		
Interest payable	910,048.62	910,048.62	910,048.62		
Other payables	974,364.77	974,364.77	974,364.77		
Total	459,695,879.77	460,222,542.27	451,100,542.27	9,122,000.00	

Item	Carrying value	Balance at the beginning of the period			
		Contractual undiscounted amount	Within 1 year	1–3 years	Over 3 years
Bank and other borrowings	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		
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	514,213,563.60	514,445,563.60	503,133,563.60	2,190,000.00	9,122,000.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(4) Market risk

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

1. Interest rate risk

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

As of 31 December 2018, the Company's bank borrowings with floating interest rates were RMB20,000,000.00 (31 December 2017: RMB0.00) and will not have any significant impact on total profit and shareholders' equity of the Company, assuming other variables held constant and a 50 basis point change in interest rates.

2. Foreign exchange risk

Foreign exchange risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in exchange rates. The Company operates in Mainland China, and transactions of its main operation are presented in RMB. Therefore, the Company's exposure to foreign exchange risk is not significant.

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

(5) Capital risk management

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

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. As at 31 December 2018, the Company's gearing ratio was -6.52% (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	29,080,000.00	11,080,000.00
Less: Cash and cash equivalents	120,293,184.97	160,425,712.97
Net debt	-91,213,184.97	-149,345,712.97
Equity	1,490,522,160.97	1,489,015,525.07
Total capital	1,399,308,976.00	1,339,669,812.10
Gearing ratio	-6.52%	-11.15%

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

8. FAIR VALUE DISCLOSURE

(1) Breakdown of fair values of assets and liabilities measured at fair value, at the end of the period

Item	Fair value at the end of the period			Total
	Fair value measured at level 1	Fair value measured at level 2	Fair value measured at level 3	
Recurring fair value measurement				
1. Financial assets held for trading and other non-current financial assets				
(1) Financial assets at fair value through profit or loss				
Bank wealth management products			60,000,000.00	60,000,000.00
Total assets measured at fair value on a recurring basis			60,000,000.00	60,000,000.00

(2) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring and non-recurring fair value measurements categorised within Level 3

The enterprise determines a fair value, using a certain valuation technique, with key parameters excluding interest which is not directly observable.

9. 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 controlling 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	43.28	43.28

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(1) Related parties (continued)

2. Details of the Company's subsidiaries are set out in the notes to the financial statements provided for owner's equity in other entities.
3. Other related parties of the Company

Names of other related parties	Relationships between other related parties and the Company
Beijing Jizhi Wuxian Technology Co., Ltd. (北京極智無限科技有限公司)	Under the control of the same controlling shareholder

(2) Related parties transactions

1. Related party transactions for purchase and sale of goods, provision and acceptance of labour services

(1) Breakdown

- 1) Related party transactions for purchase of goods and acceptance of labour services

Related Party	Transaction Contents	Balance for the current period	Balance for the corresponding period last year
Beijing Jizhi Wuxian Technology Co., Ltd. (北京極智無限科技有限公司)	Acceptance of the transfer of a research and development project	400,000.00	

- 2) Related party transactions for sale of goods and provisions of labour services

Related Party	Transaction Contents	Balance for the current period	Balance for the corresponding period last year
Beijing Jizhi Wuxian Technology Co., Ltd. (北京極智無限科技有限公司)	Water, electricity and etc.	308,963.26	

2. Related-party lease

The Company as lessor

Name of lessee	Type of leased assets	Rental income recognised during the current period	Rental income recognised during the corresponding period last year
Beijing Jizhi Wuxian Technology Co., Ltd. (北京極智無限科技有限公司)	Buildings	183,962.26	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(2) Related parties transactions *(continued)*

3. Guarantee with related parties

The Company and its subsidiaries as the secured parties

Guarantor	Guaranteed amount (RMB0,000)	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fully fulfilled	Remarks
Zhejiang Shibao Holding Group Co., Ltd., Zhang Shi Quan, Zhang Shi Zhong, Zhang Lan Jun, Zhang Bao Yi, Tang Hao Han, Yiwu City He Feng Automobile Spare Parts Co., Ltd. (義烏市和豐汽車配件有限公司), Lei Wei Zhu and Wang Zheng Xiao	245.00	13 September 2018– 11 December 2018	13 March 2019– 13 June 2019	No	Banker's acceptance
Zhejiang Shibao Holding Group Co., Ltd.	4,777.90	4 July 2018– 11 September 2018	4 January 2019– 11 March 2019	No	Banker's acceptance
Zhejiang Shibao Holding Group Co., Ltd., Zhang Shi Quan, Zhang Shi Zhong, Zhang Lan Jun, Zhang Bao Yi, Tang Hao Han, Yiwu City He Feng Automobile Spare Parts Co., Ltd., Lei Wei Zhu and Wang Zheng Xiao	2,000.00	13 July 2018	10 July 2019	No	Short-term loans

4. Related-party advances

During the current period, the Company received RMB2,000,000.00 from Zhejiang Shibao Holding Group Co., Ltd., a controlling shareholder, and staff advances and other items in the amount of RMB1,483,967.28 were paid to Beijing Jizhi Wuxian Technology Co., Ltd., which was also under the control of the group. As at 31 December 2018, all of the aforesaid advances were settled.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(3) Receivable and payable with related parties

1. Receivables from related parties

Item	Related Party	Balance at the end of the period	Balance at the beginning of the period
Notes receivable and accounts receivable		247,075.00	
	Beijing Jizhi Wuxian Technology Co., Ltd. (北京極智無限科技有限公司)	247,075.00	
Total		247,075.00	

2. Payables to related parties

Item	Related party	Balance at the end of the period	Balance at the beginning of the period
Notes payable and accounts payable			
	Zhejiang Shibao (Note)	4,460,000.00	2,245,000.00
	Hangzhou Shibao (Note)	170,000.00	2,335,404.66
	Hangzhou New Shibao (Note)	31,114,000.00	
	Jilin Shibao (Note)	5,300,000.00	4,079,900.00
	Beijing Autonics (Note)	4,434,285.32	4,478,297.68
	Wuhu Sterling (Note)	200,000.00	
Total		45,678,285.32	13,138,602.34

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

(4) Remuneration/fee of key management

1. Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	5,609,747.32	3,227,400.40
Other key management	488,086.44	1,035,176.50
Total	6,097,833.76	4,262,576.90

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

2. Remuneration of Directors and Supervisors

Item	Balance for the current period					Total
	Fee	Salaries, bonus, allowances and subsidies	Housing funds	Pension insurance	Other social insurance	
Executive Directors:		3,750,399.03	108,630.00	102,644.16	92,381.76	4,054,054.95
Zhang Bao Yi		500,000.04	33,330.00	25,661.04	23,095.44	582,086.52
Tang Hao Han		500,000.04	33,330.00	25,661.04	23,095.44	582,086.52
Zhang Lan Jun		399,999.96	33,330.00	25,661.04	23,095.44	482,086.44
Liu Xiao Ping		2,350,398.99	8,640.00	25,661.04	23,095.44	2,407,795.47
Non-executive Directors:		879,996.06		16,833.60	10,311.58	907,141.24
Zhang Shi Quan		600,000.00				600,000.00
Zhang Shi Zhong		249,996.00		16,833.60	10,311.58	277,141.18
Zhu Jie Rong		30,000.06				30,000.06
Independent non-executive Directors:	231,423.13					231,423.13
Zhang Hong Zhi	15,000.00					15,000.00
Guo Kong Hui	60,000.12					60,000.12
Shum Shing Kei	126,423.01					126,423.01
Lin Yi	30,000.00					30,000.00
Supervisors:		388,400.00		15,120.00	13,608.00	417,128.00
Du Min		150,000.00				150,000.00
Shen Song Sheng		44,400.12				44,400.12
Wu Lang Ping		145,999.88		15,120.00	13,608.00	174,727.88
Yang Di Shan		24,000.00				24,000.00
Feng Yan		24,000.00				24,000.00
Total	<u>231,423.13</u>	<u>5,018,795.09</u>	<u>108,630.00</u>	<u>134,597.76</u>	<u>116,301.34</u>	<u>5,609,747.32</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

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

2. Remuneration of Directors and Supervisors *(continued)*

Item	Fee	Balance for the corresponding period last year				Total
		Salaries, bonus, allowances and subsidies	Housing funds	Pension insurance	Other social insurance	
Executive Directors:		2,000,000.04	87,300.00	71,045.10	70,537.65	2,228,882.79
Zhang Shi Quan		600,000.00				600,000.00
Zhang Bao Yi		500,000.04	30,012.00	23,681.70	23,512.55	577,206.29
Tang Hao Han		500,000.04	27,276.00	23,681.70	23,512.55	574,470.29
Zhang Lan Jun		399,999.96	30,012.00	23,681.70	23,512.55	477,206.21
Non-executive Directors:		309,996.12	2,200.00	16,833.60	10,252.46	339,282.18
Zhang Shi Zhong		249,996.00	2,200.00	16,833.60	10,252.46	279,282.06
Zhu Jie Rong		60,000.12				60,000.12
Independent non-executive Directors:	217,275.24					217,275.24
Zhang Hong Zhi	30,000.00					30,000.00
Guo Kong Hui	60,000.12					60,000.12
Shum Shing Kei	127,275.12					127,275.12
Supervisors:		394,765.94		23,681.70	23,512.55	441,960.19
Du Min		118,500.00				118,500.00
Shen Song Sheng		40,200.06				40,200.06
Wu Lang Ping		188,065.88		23,681.70	23,512.55	235,260.13
Yang Di Shan		24,000.00				24,000.00
Feng Yan		24,000.00				24,000.00
Total	217,275.24	2,704,762.10	89,500.00	111,560.40	104,302.66	3,227,400.40

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

3. Remuneration of five highest paid employees

During the year, the five highest paid employees include four (2017: three) Directors and details of their remunerations are set out in note 8.(4)2 to the financial statements. The remuneration of the remaining one (2017: two) employees who are not director is as follows:

Item	Balance for the current period	Balance for the corresponding period last year
Salaries, bonus allowances and subsidy	1,983,032.92	903,360.00
Housing provident fund	10,800.00	37,428.00
Endowment insurance		47,363.40
Other social insurance premiums		47,025.10
Total	1,993,832.92	1,035,176.50

The remuneration range of one (2017: two) employee who is not director is as follows:

Item	Number for the current period	Number for the corresponding period last year
HK\$ Nil–HK\$1 million		2
HK\$2 million–HK\$3 million	1	

10. 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	98,750,837.23	63,565,872.08

(2) Contingencies

As of the balance sheet date, the Company does not have important contingencies that need to be disclosed.

11. EVENTS AFTER THE BALANCE SHEET DATE

Distribution of profits after the balance sheet date

Pursuant to the profit distribution proposal for 2018 passed at the 6th meeting of the sixth session of the Board of the Company held on 22 March 2019, the Company will not declare cash dividend, issue bonus Shares or increase capital by transferring from capital reserve fund. The aforementioned profit distribution proposal is subject to approval at the annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

12. OTHER IMPORTANT MATTERS

(1) Segment Information

1. Operating segment

As the operations and assets of both the Company and its subsidiaries are related to automotive steering system and components and are mainly located in Mainland China where 93.40% of the revenue was generated from domestic sales, no detailed segment information is required to be disclosed.

2. Information about major customers

(1) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company in 2018 is as follows:

Name of customer	Revenue	Proportion to total revenue of the Company (%)
Zhejiang Yuanjing Auto Parts Co., Ltd.	219,983,398.30	19.41

(2) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company in 2017 is as follows:

Name of customer	Revenue	Proportion to total revenue of the Company (%)
Zhejiang Yuanjing Auto Parts Co., Ltd.	130,461,385.04	11.30

(2) Other financial information

Item	Balance at the end of the period		Balance at the beginning of the period	
	Consolidated	The Parent	Consolidated	The Parent
Net current assets	623,638,506.49	467,985,750.81	689,857,330.13	511,863,325.29
Total assets less current liabilities	1,544,676,508.62	1,109,895,382.51	1,550,030,299.04	1,105,222,908.71

(3) Other major transactions and events that have an impact on investors' decisions

(1) Sale of non-current assets to the government

In accordance with the Acquisition Agreement between the People's Government of Fotang Town, Yiwu City and the Company, based on development planning needs, the People's Government of Fotang Town, Yiwu City acquired the houses and land of the Company located at No.1 Chezhan Road, Fotang Town, with the ancestral land area of 4,733.50 m², including the gross floor area of 5,057.44 m², at a consideration of RMB12,043,061.00. As at the end of 2018, the Agreement was completed; meanwhile, the Company early vacated the houses, paid off water and electric charges, and delivered house keys and relevant original ownership certificates to the People's Government of Fotang Town, Yiwu City, which paid the relocation bonus of RMB2,840,581.07.

(2) As at the date of the approval of this financial report, both the Company and its subsidiaries have not completed the procedures for the settlement of the Enterprise Income Tax for 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

13. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

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

1. Notes receivable and accounts receivable

(1) Breakdown

(1) Breakdown by types

Types	Balance at the end of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Bad debt provision on individual basis					
Including: Notes receivable					
Accounts receivable	292,979.00	0.48	292,979.00	100.00	
Provision for bad debt by groups					
Including: Notes receivable	1,840,000.00	3.01			1,840,000.00
Accounts receivable	59,046,605.48	96.51	1.92		59,046,603.56
Total	61,179,584.48	100.00	292,980.92	0.48	60,886,603.56

Types	1 January 2018				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Bad debt provision on individual basis					
Including: Notes receivable					
Accounts receivable	292,979.00	0.44	292,979.00	100.00	
Provision for bad debt by groups					
Including: Notes receivable	955,000.00	1.44			955,000.00
Accounts receivable	64,943,331.12	98.12	119.37	0.00	64,943,211.75
Total	66,191,310.12	100.00	293,098.37	0.44	65,898,211.75

Types	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Individually significant amount with bad debt provision on individual basis	65,898,331.12	99.55			65,898,331.12
Provision for bad debt based on grouping by credit risk characteristics	292,979.00	0.45	292,979.00	100.00	
Individually insignificant amount with bad debt provision on individual basis					
Total	66,191,310.12	100.00	292,979.00	0.44	65,898,331.12

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

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

1. Notes receivable and accounts receivable (continued)

(1) Breakdown (continued)

- 2) Notes receivable and accounts receivable with bad debt provision on individual basis at the end of the period

Name	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Receivables from Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd. (贛州江環汽車製造有限公司) and etc.	292,979.00	292,979.00	100.00	The amount was not expected to be recovered
Sub-total	292,979.00	292,979.00	100.00	

- 3) In grouping by credit risk characteristics, accounts receivable with bad debt provision according to the age and loss rate table

Age	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year (inclusive)	3,197.00	1.92	0.06
Sub-total	3,197.00	1.92	0.06

- 4) In grouping by related parties within the scope of combination, age of accounts receivable is as follows

Age	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year (inclusive)	59,043,408.48		
Sub-total	59,043,408.48		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

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

1. Notes receivable and accounts receivable (continued)

(2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount		Provision for bad debts	Carrying amount		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	17,313,274.36	28.30	1.92	18,879,758.82	28.52	
1-2 years	17,924,758.82	29.30		47,018,572.30	71.04	
2-3 years	25,648,572.30	41.92				
Over 3 years	292,979.00	0.48	292,979.00	292,979.00	0.44	292,979.00
Sub-total	61,179,584.48	100.00	292,980.92	66,191,310.12	100.00	292,979.00

(3) Change in provision for bad debts

1) Breakdown

Item	1 January 2018	Increase during the period		Decrease during the period		Balance at the end of the period
		Provision	Recovery	Reversal	Write-off	
Accounts receivable	293,098.37	-117.45				292,980.92
Sub-total	293,098.37	-117.45				292,980.92

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

(4) There are no notes and accounts receivables from products actually sold during the period.

(5) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
Wuhu Sterling (蕪湖世特瑞轉向系統有限公司)	59,043,408.48	99.50	
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 Shiyuan Transmission Shaft Company	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	0.06	32,770.00
Sub-total	59,280,578.48	99.90	237,170.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

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

1. Notes receivable and accounts receivable (continued)

(6) As at the end of the period, there were no notes receivable pledged by the Company.

(7) As 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 bill	6,810,000.00	
Sub-total	<u>6,810,000.00</u>	<u></u>

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

2. Other receivables

(1) Breakdown

1) Breakdown by types

Type	Balance at the end of the period				Carrying amount
	Carrying amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision (%)	
Provision for bad debt by groups					
Other receivables	<u>373,291,338.80</u>	<u>100.00</u>			<u>373,291,338.80</u>
Total	<u>373,291,338.80</u>	<u>100.00</u>			<u>373,291,338.80</u>

Types	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Individually significant amount with bad debt provision on individual basis	343,598,104.01	99.71			343,598,104.01
Provision for bad debt based on grouping by credit risk characteristics	209,935.96	0.06			209,935.96
Individually insignificant amount with bad debt provision on individual basis	<u>800,484.38</u>	<u>0.23</u>			<u>800,484.38</u>
Total	<u>344,608,524.35</u>	<u>100.00</u>			<u>344,608,524.35</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

13. 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)

2) Other receivables with provision for bad debt by groups

Group	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Deposit	10,100.00		
Related party dealings within the scope of combination Reserves and etc.	373,015,681.73		
	265,557.07		
Sub-total	<u>373,291,338.80</u>		

(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	43,182,374.93	11.57		45,210,189.07	13.12	
1-2 years	33,144,849.35	8.88		136,051,146.92	39.48	
2-3 years	136,031,146.92	36.44		17,273,728.93	5.01	
Over 3 years	160,932,967.60	43.11		146,073,459.43	42.39	
Sub-total	<u>373,291,338.80</u>	<u>100.00</u>		<u>344,608,524.35</u>	<u>100.00</u>	

(3) Classification by nature of other receivables

Nature of the receivables	Balance at the end of the period	Balance at the beginning of the period
Current accounts	373,015,681.73	343,598,104.01
Security deposits	10,100.00	145,129.50
Imprest	7,364.67	11,154.32
Others	258,192.40	854,136.52
Total	<u>373,291,338.80</u>	<u>344,608,524.35</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

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

2. Other receivables (continued)

(4) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Age	Percentage to the balance of other receivables (%)	Provision for bad debts
Jilin Shibao	Current account	137,418,286.08	Within 1 year, 1-2 years, 2-3 year, Over 3 years	36.81	
Beijing Autonics	Current account	114,971,316.80	Within 1 year, 1-2 years, 2-3 year, Over 3 years	30.80	
Hangzhou New Shibao	Current account	110,127,747.28	Within 1 year, 1-2 years, 2-3 years, Over 3 years	29.50	
Hangzhou Shibao	Current account	10,498,331.57	Within 1 year	2.81	
Panfar Construction Group Co., Ltd. (八方建設集團有限公司)	Other	158,360.19	Within 1 year, 1-2 years	0.04	
Sub-total		<u>373,174,041.92</u>		<u>99.96</u>	

3. Long-term equity investments

(1) Breakdown

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

(2) Investment in subsidiaries

Investees	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Provision for impairment during the period	Provision for impairment at the end of the period
Hangzhou Shibao	70,461,807.49			<u>70,461,807.49</u>		
Hangzhou New Shibao	42,000,000.00			<u>42,000,000.00</u>		
Jilin Shibao	43,250,000.00			<u>43,250,000.00</u>		
Beijing Autonics	10,000,000.00			<u>10,000,000.00</u>		
Wuhu Sterling	19,447,407.38			<u>19,447,407.38</u>		
Sub-total	185,159,214.87			<u>185,159,214.87</u>		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

13. 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	40,555,517.94	36,651,259.74	48,299,522.47	41,688,136.34
Revenue from other business	1,212,073.60	405,229.09	284,505.39	149,242.89
Total	41,767,591.54	37,056,488.83	48,584,027.86	41,837,379.23

2. Research and development expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	2,540,965.82	523,549.32
Direct investment	1,013,579.99	658,077.56
Energy costs	116,000.00	19,500.00
Depreciation of fixed assets	295,191.76	34,731.84
Others	46,620.00	
Total	4,012,357.57	1,235,858.72

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

(2) Notes to the Income Statement of the Parent Company (continued)

3. Investment gains

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from long-term equity investments under cost method of accounting		40,000,000.00
Gains from short-term bank wealth management products	2,885,996.37	4,033,486.69
Total	2,885,996.37	44,033,486.69

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

Investee	Balance for the current period	Balance for the corresponding period last year	Reasons of increase/decrease as compared with the previous period
Hangzhou Shibao	40,000,000.00		Subsidiaries have not paid dividends for the current period
Sub-total	40,000,000.00		

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

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from non-public listed companies		40,000,000.00
Sub-total		40,000,000.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

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

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

Supplemental information	Balance for the current period	Balance for the corresponding period last year
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	4,672,563.33	41,523,106.84
Add: Provision for impairment to assets	96,008.69	
Depreciation of fixed assets, oil and gas assets and production	2,018,616.31	1,513,898.95
Amortization of intangible assets	894,674.12	1,373,336.64
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets (“-” for gains)	-11,813,620.08	42,968.52
Losses on write-off of fixed assets (“-” for gains)		
Losses on changes of fair value (“-” for gains)		
Financial expenses (“-” for gains)	-3,470,262.40	-3,788,551.85
Investment losses (“-” for gains)	-2,885,996.37	-44,033,486.69
Decrease in deferred income tax assets (“-” for increase)	-24,002.18	
Increase in deferred income tax liabilities (“-” for decrease)		
Decrease in inventories (“-” for increase)	-2,958,589.54	485,041.53
Decrease in operational receivables (“-” for increase)	-12,644,242.01	-14,558,956.43
Increase in operational payables (“-” for decrease)	-5,747,441.49	14,695,710.12
Others		
Net cash flows from operating activities	-31,862,291.62	-2,746,932.37
2) Significant investment and financing activities not related to cash receipts and payments:		
Debt transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3) Net change in cash and cash equivalents:		
Cash at the end of the period	37,383,008.66	16,695,331.03
Less: Cash at the beginning of the period	16,695,331.03	11,148,732.88
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	20,687,677.63	5,546,598.15

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

14. OTHER IMPORTANT MATTERS

(1) Non-recurring gain and loss

Item	Amount	Description
Gain or loss on disposal of non-current assets, inclusive of provision for assets impairment write-off	11,896,367.95	
Unauthorised approvals or items without duly approved documents, or occasional tax rebate or tax credits		
Government grants (except for government grants which are closely related to the Company's ordinary business and conforms with the national policies as well as standard amount and quantities or continuous government grants) recognized in gains or losses during the current period	19,967,062.85	
Fees for usage of funds received from non-financial enterprises recognized in profits and losses during the current period		
Investment costs paid by the investor in acquiring the subsidiaries, associates and joint ventures less the gain derived from the fair value of the investee's identifiable net assets at the time of investment		
Profit and loss from exchange of non-monetary assets		
Gains or losses from discretionary investment or asset management	4,275,660.37	
Impairment provisions for assets due to force majeure factors such as natural disasters		
Gains or losses from debt restructuring		
Corporate restructuring fees such as staff resettlement expenses, consolidation charges, etc.		
Gains or losses arising from transactions at unfair trading prices over their fair value		
Net gains or losses from the subsidiary formed by merging jointly controlled enterprises from the beginning of the reporting period to the date of merger attributable to the current period		
Gains or losses from contingency items unrelated to the normal business operations of the Company		
Change in gains or losses generated from held for trading financial assets, change in fair value generated from trading financial liabilities, investment gains from disposal of trading financial assets and trading financial liabilities and financial assets available for sale, other than effective hedging activities associated with normal business operations of the Company		
Reversal of impairment provisions for receivables subject to individual impairment test	1,202,003.00	
Gains or losses from external entrusted loans		
Gains or losses from changes in fair value of investment properties adopting fair value method for follow-up measurements		
Effect on gains and losses for the current period from one-off adjustment to gains and losses for the period according to the requirements of the tax and accounting laws and regulations		
Discretionary fee income received from discretionary operations		
Other non-operating income and expenses apart from those stated above	-94,273.88	
Other gains and losses items conforming with the definition of non-recurring gains or losses		
Sub-total	37,246,820.29	
Less: Effect on enterprise income tax increase/(decrease)	5,146,716.03	
Effect on interest of minority shareholders (after tax)	1,803,085.48	
Items of non-recurring gains or losses attributable to equity holders of the parent	30,297,018.78	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

14. OTHER IMPORTANT MATTERS (continued)

(2) Return on net assets and earnings per share

1. Details

Profit during the period	Weighted average return on net assets ratio%	Earnings per share (RMB/share)	
		Basic	Diluted
Net profit attributable to the holders of the Company's ordinary shares	0.49	0.0092	0.0092
Net profit, after deduction of non-recurring gain and loss, attributable to the holders of the Company's ordinary shares	-1.56	-0.0292	-0.0292

2. Calculation of weighted average return on net assets ratio

Item	No.	Balance for the current period
Net profit attributable to ordinary shareholders of the Company	A	7,278,368.34
Non-recurring gain and loss	B	30,297,018.78
Net profit net of non-recurring gain and loss attributable to ordinary shareholders of the Company	C=A-B	-23,018,650.44
Net assets at the beginning of the period attributable to ordinary shareholders of the Company	D	1,474,184,392.90
Additions to net assets as a result of an issue of shares, conversion of loans, etc. attributable to ordinary shareholders of the Company	E	
Number of months from the month after increase in assets to end of reporting period	F	
Decrease in net assets net of repurchase, bonus, etc. attributable to ordinary shareholders of the Company	G	
Number of months from the month after decrease in assets to end of reporting period	H	
Others Other items increase net assets	I	-2,916,078.43
Number of months from the month after change in assets to end of reporting period	J	4.00
Number of months during the reporting period	K	12.00
Weighted average net assets	$L=D+A/2+E \times F/K-G \times H/$ $K \pm I \times J/K$	1,476,851,550.93
Weighted average return on net assets ratio	M=A/L	0.49%
Weighted average return on net assets ratio, after deduction of non-recurring gain and loss	N=C/L	-1.56%

NOTES TO THE FINANCIAL STATEMENTS

For the year 2018 | (RMB Yuan) | (English translation for reference only)

14. OTHER IMPORTANT MATTERS (continued)

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

3. Calculations of basic and diluted earnings per share

(1) Calculations of basic earnings per share

Item	Number	Year of 2017
Net profits attributable to the ordinary shareholders of the Company	A	7,278,368.34
Non-recurring profit/loss	B	30,297,018.78
Net profits after deducting non-recurring profit/loss attributable to the ordinary shareholders of the Company	C=A-B	-23,018,650.44
Total number of shares at beginning	D	789,644,637.00
Increase in number of shares due to transfer from reserves to capital or distribution of scrip dividend	E	
Increase in number of shares due to issuance of new shares or convertibles	F	
Number of months calculated from the month after increase in shares to end of reporting period	G	
Decrease in number of shares due to repurchase	H	
Number of months calculated from the month after decrease in shares to end of reporting period	I	
Reduction in number of shares during the reporting period	J	
Number of months in the reporting period	K	12.00
Weighted average number of issued ordinary shares	$L=D+E+F \times G/K-H \times I/K-J$	789,644,637.00
Basic earnings per share	$M=A/L$	0.0092
Basic earnings per share after deducting non-recurring profit/loss	$N=C/L$	-0.0292

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

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

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

“A Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued in China and listed on Shenzhen Stock Exchange, and are subscribed for and traded in RMB
“Articles of Association”	Articles of association of the Company
“Audit Committee”	Audit committee of the Company
“BAIC Motor”	Beijing Automobile Group Company Limited
“Beijing Autonics”	Beijing Autonics Technology Co., Ltd., a wholly-owned subsidiary of the Company since 30 November 2016
“Board”	Board of Directors of the Company
“Changan Group”	China Changan Automobile Group Company Limited
“Chery Auto”	Chery Automobile Co., Ltd.
“China Accounting Standards for Business Enterprises or Accounting Standards for Business Enterprises or ASBE”	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 of PRC
“Daimler Group”	Daimler AG
“Director(s)”	Director(s) of the Company
“Dongfeng Group”	Dongfeng Motor Company
“Erdos Sterling”	Erdos Sterling Steering System Co., Ltd., a wholly-owned subsidiary of Wuhu Sterling
“FAW Group”	FAW Group Corporation
“Geely Automobile”	Zhejiang Geely Holding Group Co., Ltd.
“Group”	The Company and its subsidiaries
“H Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued overseas and listed on Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars
“Hangzhou New Shibao”	Hangzhou New Shibao Electric Power Steering Co., Ltd., a subsidiary controlled by the Company

GLOSSARY

(English translation for reference only)

“Hangzhou Shibao”	Hangzhou Shibao Auto Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“JAC”	Anhui Jianghuai Automobile Group Co., Ltd.
“Jilin Shibao”	Jilin Shibao Machinery Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company
“King Long Motor”	Xiamen King Long Motor Group Co., Ltd.
“Listing Rules”	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules of Hong Kong Stock Exchange
“Nomination Committee”	Nomination committee of the Company
“PRC or China or Mainland China”	People’s Republic of China
“Remuneration Committee”	Remuneration committee of the Company
“Reporting Period or This Period”	1 January 2018 to 31 December 2018
“RMB”	Renminbi, the lawful currency of the PRC
“Saipa Automotive”	Iran Saipa Automotive Group
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	A Share(s) and/or H Share(s)
“Shareholder(s)”	Shareholder(s) of the Company
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange of the PRC
“Shibao Holding or Ultimate Holding Company or Controlling Shareholder”	Zhejiang Shibao Holding Group Co., Ltd.
“Siping Steering”	Siping Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company since 11 June 2014, cancelled on 29 December 2018
“Supervisor(s)”	Supervisor(s) of the Company
“Supervisory Committee”	Supervisory committee of the Company
“Wuhu Sterling”	Wuhu Sterling Steering System Co., Ltd., a subsidiary controlled by the Company
“Zotye Automobile”	Zotye Automobile Co., Ltd.