



**浙江世寶股份有限公司**

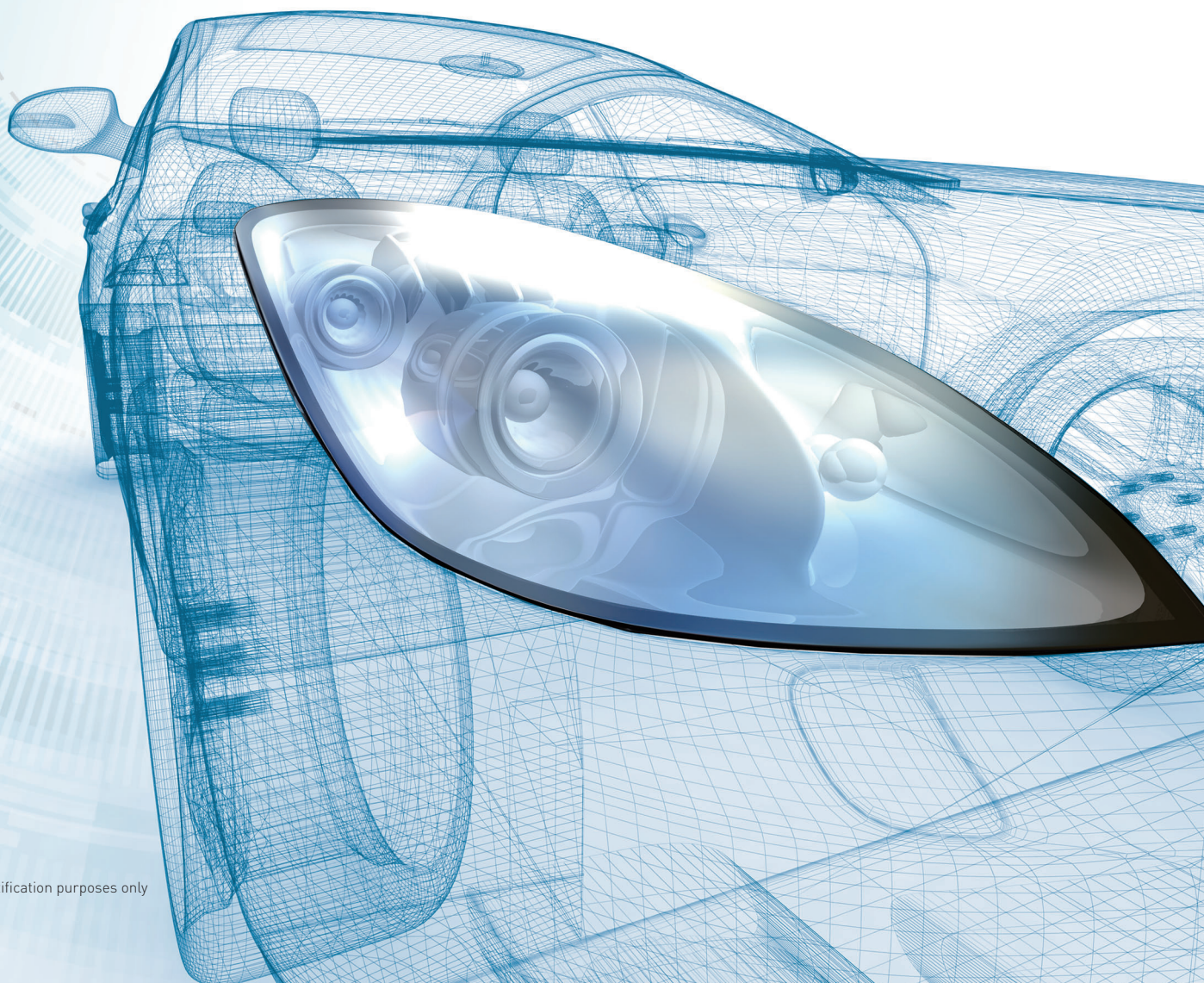
ZHEJIANG SHIBAO COMPANY LIMITED\*

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

Stock Code: 1057

**S**TEERING  
the **F**UTURE

INTERIM REPORT 2019

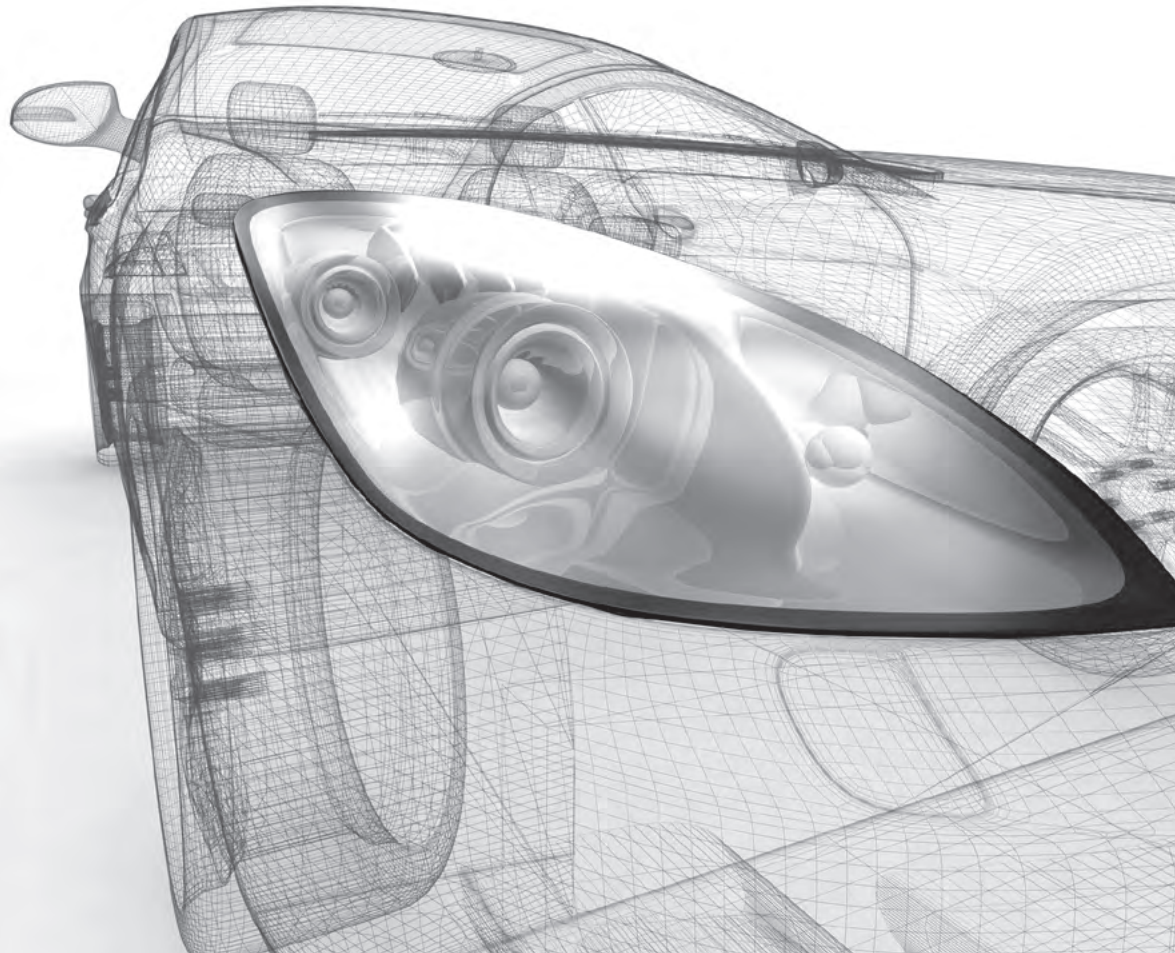


\* For identification purposes only



# CONTENTS

Corporate Information	2
Key Accounting Information and Financial Indicators	5
Unaudited Interim Financial Statements	
Consolidated Balance Sheet	6
Balance Sheet of the Parent Company	8
Consolidated Income Statement	9
Income Statement of the Parent Company	10
Consolidated Statement of Cash Flows	11
Statement of Cash Flows of the Parent Company	12
Consolidated Statement of Changes in Equity	13
Statement of Changes in Equity of the Parent Company	14
Notes to the Financial Statements	15
Discussion and Analysis of Operations	94
Corporate Governance and Other Information	100
Glossary	103



# CORPORATE INFORMATION

(English translation for reference only)

<b>Legal Name</b>	Zhejiang Shibao Company Limited* 浙江世寶股份有限公司
<b>Board of Directors</b>	<b>Executive Directors</b> Mr. Zhang 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> )  <b>Non-executive Directors</b> Mr. Zhang Shi Quan (張世權) ( <i>Chairman</i> ) Mr. Zhang Shi Zhong (張世忠)  <b>Independent Non-executive Directors</b> Mr. Guo Kong Hui (郭孔輝) Mr. Shum Shing Kei (沈成基) Mr. Lin Yi (林逸)
<b>Supervisors</b>	Mr. Du Min (杜敏) Mr. Yang Di Shan (楊迪山) Mr. Wu Lang Ping (吳琅平) Mr. Shen Song Sheng (沈松生) Ms. Feng Yan (馮燕)
<b>Senior Management</b>	Mr. Yu Zhong Chao (虞忠潮)
<b>Audit Committee</b>	Mr. Shum Shing Kei (沈成基) ( <i>Chairman</i> ) Mr. Zhang Shi Zhong (張世忠) Mr. Lin Yi (林逸)
<b>Remuneration Committee</b>	Mr. Shum Shing Kei (沈成基) ( <i>Chairman</i> ) Mr. Zhang Shi Zhong (張世忠) Mr. Lin Yi (林逸)
<b>Nomination Committee</b>	Mr. Lin Yi (林逸) ( <i>Chairman</i> ) Mr. Shum Shing Kei (沈成基) Ms. Zhang Lan Jun (張蘭君)
<b>Investment &amp; Strategy Committee</b>	Mr. Zhang Shi Quan (張世權) ( <i>Chairman</i> ) Mr. Zhang Bao Yi (張寶義) Mr. Tang Hao Han (湯浩瀚)
<b>Board Secretary</b>	Ms. Liu Xiao Ping (劉曉平)
<b>Company Secretary</b>	Ms. Huen Lai Chun (禰麗珍)
<b>Authorised Representatives</b>	Ms. Zhang Lan Jun (張蘭君) Ms. Huen Lai Chun (禰麗珍)
<b>Registered Office</b>	No. 1, Shuanglin Road, Fotang Town, Yiwu Zhejiang Province, China (Post code: 322002)

\* For identification only

# CORPORATE INFORMATION

(English translation for reference only)

## 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  
Block B, China Resources Building  
1366 Qianjiang Road  
Hangzhou, Zhejiang Province, China

## 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

# CORPORATE INFORMATION

(English translation for reference only)

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, 6th 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

## 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) *Board Secretary*  
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 secretarial 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: Hong Kong Stock Exchange  
Stock Name: Zhejiang Shibao Stock Code: 1057

## Website

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



# KEY ACCOUNTING INFORMATION AND FINANCIAL INDICATORS

<b>Item</b>	<b>This Reporting Period RMB</b>	Corresponding period of last year RMB	<b>Change</b>
Operating revenue	<b>450,513,067.17</b>	591,578,777.31	-23.85%
Net profit attributable to shareholders of the listed company	<b>-18,428,119.21</b>	-5,856,497.62	-214.66%
Net profit after non-recurring gains and losses attributable to shareholders of the listed company	<b>-25,656,039.80</b>	-16,038,719.24	-59.96%
Net cash flows from operating activities	<b>-7,143,272.74</b>	3,151,665.88	-326.65%
Basic earnings per share (RMB/Share)	<b>-0.0233</b>	-0.0074	-214.86%
Diluted earnings per share (RMB/Share)	<b>-0.0233</b>	-0.0074	-214.86%
Weighted average return on net assets	<b>-1.25%</b>	-0.40%	-0.85%

<b>Item</b>	<b>At the end of the Reporting Period RMB</b>	At the end of last year RMB	<b>Change</b>
Total assets	<b>2,114,259,159.48</b>	2,045,077,333.85	3.38%
Net assets attributable to shareholders of the listed company	<b>1,460,118,563.60</b>	1,478,546,682.81	-1.25%

# UNAUDITED INTERIM FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

The Board of the Company is pleased to announce the unaudited consolidated financial statements of the Company for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018. The accounting information contained in this interim report has not been audited but has been reviewed by the Audit Committee of the Company.

## CONSOLIDATED BALANCE SHEET

30 June 2019

Item	Balance at the end of the period	Balance at the beginning of the period
<b>Current Assets:</b>		
Cash on hand and at bank	253,603,400.11	129,531,349.92
Financial assets held for trading	30,000,000.00	60,000,000.00
Notes receivable	136,214,870.54	142,065,764.04
Accounts receivable	439,478,837.71	468,614,553.04
Prepayments	8,093,010.10	5,961,331.19
Other receivables	7,207,514.17	7,223,954.38
Inventories	285,138,452.84	296,617,482.37
Other current assets	15,484,140.73	14,024,896.78
Total current assets	<b>1,175,220,226.20</b>	1,124,039,331.72
<b>Non-current Assets:</b>		
Investment property	23,362,845.11	23,875,050.98
Fixed assets	641,794,339.03	648,472,200.05
Construction in progress	120,659,054.98	101,847,457.97
Intangible assets	88,701,841.82	90,633,988.60
Goodwill	4,694,482.34	4,694,482.34
Deferred income tax assets	4,395,515.97	3,795,739.02
Other non-current assets	55,430,854.03	47,719,083.17
Total non-current assets	<b>939,038,933.28</b>	921,038,002.13
<b>Total Assets</b>	<b>2,114,259,159.48</b>	2,045,077,333.85
<b>Current Liabilities:</b>		
Short-term borrowings	180,000,000.00	20,000,000.00
Notes payable	72,268,612.47	120,498,802.21
Accounts payable	287,559,714.22	308,232,664.17
Receipts in advance	4,197,937.96	2,090,618.17
Staff costs payable	11,220,456.09	13,581,085.61
Tax payable	1,975,803.35	1,905,954.69
Other payables	2,861,144.84	1,884,413.39
Including: Interest payable	1,107,370.82	910,048.62
Contract liabilities	10,261,231.72	3,902,211.90
Other current liabilities	16,563,367.59	18,038,269.86
Total current liabilities	<b>586,908,268.24</b>	490,134,020.00
<b>Non-current Liabilities:</b>		
Long-term borrowings	9,080,000.00	9,080,000.00
Deferred income	47,342,003.75	52,234,573.03
Deferred income tax liabilities	2,931,452.77	3,106,579.85
Total non-current liabilities	<b>59,353,456.52</b>	64,421,152.88
Total liabilities	<b>646,261,724.76</b>	554,555,172.88

# CONSOLIDATED BALANCE SHEET

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Balance at the end of the period	Balance at the beginning of the period
<b>Shareholders' Equity:</b>		
Share capital	<b>789,644,637.00</b>	789,644,637.00
Capital reserve	<b>182,334,093.78</b>	182,334,093.78
Surplus reserve	<b>135,379,620.20</b>	135,379,620.20
Retained earnings	<b>352,760,212.62</b>	371,188,331.83
	<hr/>	<hr/>
Equity attributable to shareholders of the parent	<b>1,460,118,563.60</b>	1,478,546,682.81
	<hr/>	<hr/>
Minority interests	<b>7,878,871.12</b>	11,975,478.16
	<hr/>	<hr/>
Total shareholders' equity	<b>1,467,997,434.72</b>	1,490,522,160.97
	<hr/>	<hr/>
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,114,259,159.48</b>	2,045,077,333.85
	<hr/> <hr/>	<hr/> <hr/>



# BALANCE SHEET OF THE PARENT COMPANY

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Balance at the end of the period	Balance at the beginning of the period
<b>Current Assets:</b>		
Cash on hand and at bank	103,753,808.86	38,118,008.66
Financial assets held for trading		20,000,000.00
Notes receivable	10,000.00	1,840,000.00
Accounts receivable	56,060,933.48	59,046,603.56
Prepayments	727,399.10	1,325,090.40
Other receivables	408,142,667.25	373,291,338.80
Inventories	9,415,222.92	10,821,449.25
Other current assets	9,924,932.37	3,907,924.37
Total current assets	588,034,963.98	508,350,415.04
<b>Non-current Assets:</b>		
Long-term receivables	338,000,000.00	288,000,000.00
Long-term equity investments	185,159,214.87	185,159,214.87
Investment property	17,437,001.31	17,889,608.94
Fixed assets	96,438,734.77	77,182,953.94
Construction in progress	39,932,921.14	24,842,997.63
Intangible assets	34,224,425.58	34,646,333.12
Deferred income tax assets	97,276.29	97,276.77
Other non-current assets	6,478,175.29	14,091,246.43
Total non-current assets	717,767,749.25	641,909,631.70
<b>Total Assets</b>	<b>1,305,802,713.23</b>	<b>1,150,260,046.74</b>
<b>Current Liabilities:</b>		
Short-term borrowings	180,000,000.00	20,000,000.00
Notes payable	4,530,000.00	2,450,000.00
Accounts payable	14,787,291.20	12,605,259.36
Receipts in advance	1,664,124.07	2,090,618.17
Contract liabilities	5,500.00	5,500.00
Staff costs payable	473,008.87	1,200,727.74
Tax payable	90,157.73	798,591.50
Other payables	1,012,802.07	333,967.46
Including: Interest payable	228,380.50	27,912.50
Other current liabilities	440,000.00	880,000.00
Total current liabilities	203,002,883.94	40,364,664.23
Total liabilities	203,002,883.94	40,364,664.23
<b>Shareholders' Equity:</b>		
Share capital	789,644,637.00	789,644,637.00
Capital reserve	187,767,058.72	187,767,058.72
Surplus reserve	74,376,643.16	74,376,643.16
Retained earnings	51,011,490.41	58,107,043.63
Total shareholders' equity	1,102,799,829.29	1,109,895,382.51
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,305,802,713.23</b>	<b>1,150,260,046.74</b>

# CONSOLIDATED INCOME STATEMENT

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Total operating revenue	<b>450,513,067.17</b>	591,578,777.31
Including: Operating revenue	<b>450,513,067.17</b>	591,578,777.31
2. Total operating costs	<b>479,058,769.28</b>	610,941,486.98
Including: Operating costs	<b>372,841,463.94</b>	498,024,626.88
Business taxes and surcharges	<b>3,942,346.38</b>	4,901,519.39
Selling expenses	<b>40,159,326.16</b>	40,528,863.33
General and administrative expenses	<b>32,697,905.63</b>	35,508,447.02
Research and development expenses	<b>27,853,907.88</b>	32,309,297.22
Financial expenses	<b>1,563,819.29</b>	-331,266.86
Including: Interest expenses	<b>1,763,404.67</b>	1,623,214.05
Interest income	<b>684,358.02</b>	2,320,584.46
Add: Other gains	<b>6,648,542.97</b>	7,071,722.79
Investment gains (“-” as loss)	<b>658,689.06</b>	2,436,590.84
Credit impairment losses (“-” as loss)	<b>-1,018,267.87</b>	1,305,096.97
Assets impairment losses (“-” as loss)	<b>-1,069,918.83</b>	-1,804,899.72
Gains from disposal of assets (“-” as loss)	<b>295,997.68</b>	113,907.91
3. Operating profit (“-” as loss)	<b>-23,030,659.10</b>	-10,240,290.88
Add: Non-operating income	<b>31,677.20</b>	567,420.78
Less: Non-operating expenses	<b>297,806.10</b>	414,554.01
4. Total profit (“-” as total loss)	<b>-23,296,788.00</b>	-10,087,424.11
Less: Income tax expenses	<b>-772,061.75</b>	348,756.77
5. Net profit (“-” as net loss)	<b>-22,524,726.25</b>	-10,436,180.88
(1) Classification by business continuity		
1. Net profit from continuing operations (“-” as net loss)	<b>-22,524,726.25</b>	-10,436,180.88
(2) Classification by ownership		
1. Net profit attributable to equity holders of the parent	<b>-18,428,119.21</b>	-5,856,497.62
2. Minority interests	<b>-4,096,607.04</b>	-4,579,683.26
6. Total comprehensive income	<b>-22,524,726.25</b>	-10,436,180.88
Total comprehensive income attributable to equity holders of the parent	<b>-18,428,119.21</b>	-5,856,497.62
Total comprehensive income attributable to minority shareholders	<b>-4,096,607.04</b>	-4,579,683.26
7. Earnings per share:		
(1) Basic earnings per share	<b>-0.0233</b>	-0.0074
(2) Diluted earnings per share	<b>-0.0233</b>	-0.0074

# INCOME STATEMENT OF THE PARENT COMPANY

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Operating revenue	<b>19,334,377.20</b>	23,505,339.16
Less: Operating costs	<b>19,180,367.29</b>	19,053,913.35
Business taxes and surcharges	<b>301,063.75</b>	214,288.00
Selling expenses	<b>483,843.56</b>	220,784.07
General and administrative expenses	<b>6,514,687.92</b>	7,224,058.33
Research and development expenses	<b>1,692,797.86</b>	3,515,184.81
Financial expenses	<b>-1,270,038.26</b>	-1,739,137.93
Including: Interest expenses	<b>1,332,658.21</b>	452,368.07
Interest income	<b>2,615,899.29</b>	2,212,507.31
Add: Other gains	<b>338,394.45</b>	
Investment gains (“-” as loss)	<b>159,317.65</b>	2,287,030.23
Credit impairment losses (“-” as loss)	<b>1.92</b>	
Gains from disposal of assets (“-” as loss)	<b>-2,496.40</b>	
2. Operating profit (“-” as loss)	<b>-7,073,127.30</b>	-2,696,721.24
Add: Non-operating income	<b>400.00</b>	20,741.81
Less: Non-operating expenses	<b>19,983.16</b>	1,160.00
3. Total profit (“-” as total loss)	<b>-7,092,710.46</b>	-2,677,139.43
Less: Income tax expenses	<b>2,842.76</b>	-8,679.70
4. Net profit (“-” as net loss)	<b>-7,095,553.22</b>	-2,668,459.73
(1) Net profit from continuing operations (“-” as net loss)	<b>-7,095,553.22</b>	-2,668,459.73
5. Total comprehensive income	<b>-7,095,553.22</b>	-2,668,459.73



# CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	<b>280,262,418.10</b>	330,806,018.25
Return of taxes and levies	<b>5,000,312.33</b>	2,781,398.32
Cash received relating to other operating activities	<b>12,489,583.11</b>	13,139,810.07
Sub-total of cash inflow	<b>297,752,313.54</b>	346,727,226.64
Cash paid for purchase of goods and acceptance of services	<b>151,586,935.04</b>	177,019,507.47
Cash paid to and on behalf of employees	<b>74,596,168.01</b>	86,585,084.04
Payment of taxes and levies	<b>17,182,339.24</b>	22,062,747.40
Cash paid relating to other operating activities	<b>61,530,143.99</b>	57,908,221.85
Sub-total of cash outflow	<b>304,895,586.28</b>	343,575,560.76
Net cash flows from operating activities	<b>-7,143,272.74</b>	3,151,665.88
2. Cash flows from investing activities: :		
Cash received from return of investments	<b>100,000,000.00</b>	227,000,000.00
Cash received from investment gains	<b>674,575.34</b>	2,582,786.30
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<b>2,238,061.18</b>	2,338,723.74
Cash received relating to other investing activities		629,200.00
Sub-total of cash inflow	<b>102,912,636.52</b>	232,550,710.04
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	<b>64,871,098.56</b>	62,281,326.16
Cash paid for investments	<b>70,000,000.00</b>	200,000,000.00
Sub-total of cash outflow	<b>134,871,098.56</b>	262,281,326.16
Net cash flows from investing activities	<b>-31,958,462.04</b>	-29,730,616.12
3. Cash flows from financing activities:		
Cash received from borrowings	<b>198,700,000.00</b>	200,000,000.00
Sub-total of cash inflow	<b>198,700,000.00</b>	200,000,000.00
Cash paid for debt repayments	<b>38,700,000.00</b>	145,000,000.00
Cash paid for distribution of dividend and profit or payment of interest expenses	<b>1,566,082.47</b>	1,449,162.62
Cash paid relating to other financing activities		273,611.95
Sub-total of cash outflow	<b>40,266,082.47</b>	146,722,774.57
Net cash flows from financing activities	<b>158,433,917.53</b>	53,277,225.43
4. Effect of changes in foreign exchange rate on cash and cash equivalents	<b>-187,229.15</b>	-5,038.92
5. Net increase in cash and cash equivalents	<b>119,144,953.60</b>	26,693,236.27
Add: Opening balance of cash and cash equivalents	<b>120,293,184.97</b>	160,425,712.97
6. Closing balance of cash and cash equivalents	<b>239,438,138.57</b>	187,118,949.24

# STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Amount for the current period	Amount for the last period
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	<b>23,013,237.57</b>	31,550,835.77
Return of taxes and levies	<b>539,462.49</b>	
Cash received relating to other operating activities	<b>943,410.13</b>	7,193,962.39
Sub-total of cash inflow	<b>24,496,110.19</b>	38,744,798.16
Cash paid for purchase of goods and acceptance of services	<b>24,787,958.51</b>	23,661,471.46
Cash paid to and on behalf of employees	<b>6,303,882.60</b>	7,318,384.55
Payment of taxes and levies	<b>1,520,556.03</b>	1,013,039.98
Cash paid relating to other operating activities	<b>23,931,260.32</b>	25,218,291.30
Sub-total of cash outflow	<b>56,543,657.46</b>	57,211,187.29
Net cash flows from operating activities	<b>-32,047,547.27</b>	-18,466,389.13
2. Cash flows from investing activities:		
Cash received from return of investments	<b>20,000,000.00</b>	220,000,000.00
Cash received from investment gains	<b>168,876.71</b>	2,424,252.05
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<b>26,401.08</b>	
Cash received relating to other investing activities	<b>30,000,000.00</b>	70,000,000.00
Sub-total of cash inflow	<b>50,195,277.79</b>	292,424,252.05
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	<b>32,003,740.11</b>	39,747,356.17
Cash paid for investments		150,000,000.00
Cash paid relating to other investing activities	<b>80,000,000.00</b>	70,000,000.00
Sub-total of cash outflow	<b>112,003,740.11</b>	259,747,356.17
Net cash flows from investing activities	<b>-61,808,462.32</b>	32,676,895.88
3. Cash flows from financing activities:		
Cash received from borrowings	<b>169,000,000.00</b>	160,000,000.00
Sub-total of cash inflow	<b>169,000,000.00</b>	160,000,000.00
Cash paid for debt repayments	<b>9,000,000.00</b>	105,000,000.00
Cash paid for distribution of dividend and profit or payment of interest expenses	<b>1,132,190.21</b>	294,034.73
Cash paid relating to other financing activities		273,611.95
Sub-total of cash outflow	<b>10,132,190.21</b>	105,567,646.68
Net cash flows from financing activities	<b>158,867,809.79</b>	54,432,353.32
4. Effect of changes in foreign exchange rate on cash and cash equivalents		
5. Net increase in cash and cash equivalents	<b>65,011,800.20</b>	68,642,860.07
Add: Opening balance of cash and cash equivalents	<b>37,383,008.66</b>	16,695,331.03
6. Closing balance of cash and cash equivalents	<b>102,394,808.86</b>	85,338,191.10

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Current Period							
	Attributable to equity holders of the parent						Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total			
1. Balance at the end of last year	789,644,637.00	182,334,093.78	135,379,620.20	371,188,331.83	1,478,546,682.81	11,975,478.16	1,490,522,160.97	
2. Balance at the beginning of year	789,644,637.00	182,334,093.78	135,379,620.20	371,188,331.83	1,478,546,682.81	11,975,478.16	1,490,522,160.97	
3. Increase/decrease during the period ("-" as decrease)				-18,428,119.21	-18,428,119.21	-4,096,607.04	-22,524,726.25	
(1) Total comprehensive income				-18,428,119.21	-18,428,119.21	-4,096,607.04	-22,524,726.25	
4. Balance at the end of the period	789,644,637.00	182,334,093.78	135,379,620.20	352,760,212.62	1,460,118,563.60	7,878,871.12	1,467,997,434.72	

Item	Last Period							
	Attributable to equity holders of the parent						Minority interests	Total shareholders' equity
	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: Changes 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 ("-" as decrease)				-5,856,497.62	-5,856,497.62	-4,579,683.26	-10,436,180.88	
(1) Total comprehensive income				-5,856,497.62	-5,856,497.62	-4,579,683.26	-10,436,180.88	
4. Balance at the end of the period	789,644,637.00	185,250,172.21	134,912,363.87	358,520,722.20	1,468,327,895.28	9,792,310.25	1,478,120,205.53	



# STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Current period				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	789,644,637.00	187,767,058.72	74,376,643.16	58,107,043.63	1,109,895,382.51
2. Balance at the beginning of year	789,644,637.00	187,767,058.72	74,376,643.16	58,107,043.63	1,109,895,382.51
3. Increase/decrease during the period ("-" as decrease)				-7,095,553.22	-7,095,553.22
(1) Total comprehensive income				-7,095,553.22	-7,095,553.22
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>51,011,490.41</u>	<u>1,102,799,829.29</u>

Item	Last Period				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	789,644,637.00	187,767,058.72	73,909,386.83	53,901,826.16	1,105,222,908.71
Add: Changes 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 ("-" as decrease)				-2,668,459.73	-2,668,459.73
(1) Total comprehensive income				-2,668,459.73	-2,668,459.73
4. Balance at the end of year	<u>789,644,637.00</u>	<u>187,767,058.72</u>	<u>73,909,386.83</u>	<u>51,233,276.90</u>	<u>1,102,554,359.45</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 1. GENERAL

Zhejiang Shibao Company Limited (hereafter referred to as the “Company”) is a joint stock limited company approved by the document (ZHE SHANG SHI [2004] 37) (浙上市[2004]37號) issued by the Listing Affair Team (上市工作領導小組) of the People’s Government of Zhejiang Province. The Company was established by ways of promotion jointly by Zhejiang Shibao Holding Group Co., Ltd., Wu Wei Xu (吳偉旭), Wu Lang Yue (吳琅躍), Du Chun Mao (杜春茂) and Chen Wen Hong (陳文洪) on the basis of Zhejiang Shibao Steering Gear Co., Ltd.. The Company was registered and incorporated with Zhejiang Administration for Industry & Commerce on 30 April 2004. Currently, it holds the business licence with a creditability code (913300001476445210) issued by the Zhejiang Administration Bureau of Industry and Commerce and has share capital of RMB789,644,637.00 divided into a total of 789,644,637 shares (RMB1 for each share). Of which, shares with selling restrictions include 19,793,685 A Shares; shares without selling restrictions include 553,065,952 A Shares and 216,785,000 H Shares. The Company’s Shares were listed on the GEM of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange on 16 May 2006 and 2 November 2012, respectively. On 9 March 2011, the Company’s Shares were approved to be listed and traded on the Main Board of the Hong Kong Stock Exchange.

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

The financial statements have been adopted for publication at the 8th meeting of the sixth session of the Board of the Company on 23 August 2019.

The Company has included 6 subsidiaries in the consolidated financial statements for This Period, i.e. Hangzhou Shibao, Hangzhou New Shibao, Jilin Shibao, Beijing Autonics, Wuhu Sterling and Erdos Sterling. Details refer to the note to the financial statements “Owner’s equity in other entities”.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### (1) Basis of Preparation

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

### (2) Evaluation on Ability of Continuing Operation

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Important Note: The Company has made specific accounting policies and accounting estimates regarding making provisions for the 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 CASBE, which have truly and fully reflected the information of the Company, including the financial position, results of operations and cash flows.

### (2) Accounting Year

The accounting year is from 1 January to 31 December.

### (3) Operating Cycle

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

### (4) Functional Currency

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

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

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

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

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

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

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

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



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

### (8) Foreign Currency Translation

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

### (9) Financial Instruments

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

The Company classifies its financial assets into 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

##### *(2) Subsequent measurement of financial assets (Continued)*

##### 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.

##### *(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

Measured in accordance with ASBE 23 — Transfer of 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)

After initial recognition, they are 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

##### *(3) Subsequent measurement of financial liabilities (Continued)*

##### 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.

#### 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 financial 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 financial assets being debt instrument investments at fair value through other comprehensive income).

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

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

#### 5. Impairment on financial instruments

##### (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 financial 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.



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 5. Impairment on financial instruments *(Continued)*

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

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.

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

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (9) Financial Instruments (Continued)

#### 5. Impairment on financial instruments (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

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (9) Financial Instruments (Continued)

#### 5. Impairment on financial instruments (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

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### **(11) Contract Costs**

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.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

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

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

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

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

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 2. Determination of investment cost

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

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

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

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

- 1) In the separate financial report, the initial investment cost which is accounted for using the newly adopted cost method is the sum of carrying value of equity investment originally held and the addition of investment cost.
- 2) To judge whether the transaction is a "package deal" for the purpose of the consolidated financial statements. For the transaction which is categorized as a "package deal", the accounting treatment will be applied on it as if they were of a transaction obtaining the right to control the acquiree. For those which is not categorized as a "package deal", the equity interest of the acquiree held before the date of acquisition is re-measured according to its fair value at the date of acquisition. The difference between the fair value and its carrying amount is recognized as investment income of the applicable period. If the equity interests of the acquiree held before the date of acquisition involves other comprehensive income accounted for using equity accounting method, they are transferred to income for the period covering the date of acquisition together with the relevant other comprehensive income, excluding other comprehensive income resulting from changes in net liabilities or net assets arising from the designated benefit plan through the re-measurement on the investee.
- (3) A long-term equity investment acquired otherwise than through a business combination is initially recognised at the actual consideration paid if the investment is acquired by cash, or at the fair value of the equity securities issued if the investment is acquired by issuing equity securities. For those obtained through debt restructuring, the initial investment cost is recognized pursuant to CASBE No. 12 — debt restructuring. For those obtained through exchange of non-monetary assets, the initial investment cost is recognized pursuant to CASBE No. 7 — exchange of non-monetary assets.



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 3. Subsequent measurement and recognition

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

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

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

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

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

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

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

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

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

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

### **(14) Investment Properties**

1. Investment properties include the right to use the leased land, the land held for appreciation and transfer and the leased buildings.
2. 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

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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 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 and with uncertain service life, whether there is evidence of impairment or not, impairment test is conducted annually. Impairment test is performed on goodwill together with its relevant asset group or asset group combination.

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (20) Employee Benefits

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

#### 2. Accounting treatment for short-term remuneration

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

#### 3. Accounting treatment of post-employment benefits

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

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

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

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

#### 4. Accounting treatment of dismissal benefits

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



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### **(20) Employee Benefits** *(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 remuneration is recognized as service cost and the total net amount of the components such as net interest amount of net liabilities or net assets in terms of other long-term employees' benefits and changes arising from re-measuring the net liabilities or net assets in terms of other long-term employees' benefits is recognized as profit or loss or relevant cost of asset for the current period.

### **(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

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### **(23) Government Grant**

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.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

### **(25) Operating Leases**

#### Accounting method of operating leases

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

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

### **(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.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### **(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.

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

#### 2. 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.



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (28) Significant Accounting Judgments and Estimates (Continued)

#### 4. Long-term asset impairment

As mentioned in note 3 Partial Long-term Asset Impairment to the financial statements, for long-term assets such as long-term equity investment, 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 and with uncertain service life, whether there is evidence of impairment or not, impairment test is conducted annually. Impairment test is performed on goodwill together with its relevant asset group or asset group combination. The result of the measurement of the recoverable amounts shows that, if the recoverable amount of the long-term asset is lower than its carrying amount, the carrying amount of the asset is written down to the recoverable amount. The amount written down is recognized as impairment loss through profit or loss and is provided for the corresponding asset impairment.

### (29) Material changes in accounting policies

#### 1. Material changes in accounting policies

(1) *Changes in accounting policies caused by changes in Accounting Standards for Business Enterprises*

- 1) The 2019 financial statements were prepared by the Company in accordance with the “Notice from the Ministry of Finance on Revising and Issuing the Format of 2019 Financial Statements of General Enterprises” (CAI KUAJ (2019) No.6) and the Accounting Standards for Business Enterprises, and such change of accounting policy is subject to retrospective adjustments. Items and amounts in 2018 financial statements which are significantly affected are as follows:

Old item and amount		New item and amount	
Notes receivable and accounts receivable	610,680,317.08	Notes receivable	142,065,764.04
		Accounts receivable	468,614,553.04
Notes payable and accounts payable	428,731,466.38	Notes payable	120,498,802.21
		Accounts payable	308,232,664.17
Other current liabilities	28,305,075.09	Other current liabilities	18,038,269.86
Deferred income	41,967,767.80	Deferred income	52,234,573.03

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 4. TAXATION

### (1) Major taxes and tax rates

Type of tax	Basis	Tax rate
Value added tax (VAT)	Sales of goods or rendering of taxable services	16%/13%, 10%/9% (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 profit	15%, 25%

Note: In accordance with the announcement (Ministry of Finance, State Taxation Administration and General Administration of Customs [2019] No.39), from 1 April 2019, 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 16% and 10% have been changed to 13% and 9%; 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 16%/13%, 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 16% and the export rebate rate of 16% is adjusted to 13%, which is applicable to goods exported after 1 July 2019.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Cash	102,741.33	276,914.88
Bank deposits	239,335,397.24	120,016,270.09
Other monetary funds	14,165,261.54	9,238,164.95
Total		
Including: the total amount of money placed overseas	<u>253,603,400.11</u>	<u>129,531,349.92</u>

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

Other monetary funds at the end of the period represents the security deposits of RMB14,165,261.54 for the issuance of the bank acceptance bills.

#### 2. Financial assets held for trading

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Financial assets at fair value through profit or loss	30,000,000.00	60,000,000.00
Including: bank short-term wealth management products	<u>30,000,000.00</u>	<u>60,000,000.00</u>
Total	<u>30,000,000.00</u>	<u>60,000,000.00</u>

##### (2) Bank wealth management products

As of 30 June 2019, the Company held a single wealth management product in the amount of RMB30,000,000.00 purchased from Agricultural Bank of China Limited. Such wealth management product was a bank short-term wealth management product, which could be redeemed only on the maturity date and mature within one year.

#### 3. Notes receivable

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	136,214,870.54	142,065,764.04
Total	<u>136,214,870.54</u>	<u>142,065,764.04</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 3. Notes receivable (Continued)

##### (1) Breakdown (Continued)

##### 1) Breakdown by types

Type	Carrying amount Amount	Balance at the end of the period		Book value
		%	Provision for bad debts Amount	
Notes receivable with bad debt provision on individual basis				
Notes receivable with bad debt provision by groups	<b>136,214,870.54</b>	<b>100%</b>		<b>136,214,870.54</b>
<b>Total</b>	<b>136,214,870.54</b>	<b>100%</b>		<b>136,214,870.54</b>

Type	Carrying amount Amount	Balance at the beginning of the period		Book value
		%	Provision for bad debts Amount	
Notes receivable with bad debt provision on individual basis				
Notes receivable with bad debt provision by groups	142,065,764.04	100.00%		142,065,764.04
<b>Total</b>	<b>142,065,764.04</b>	<b>100.00%</b>		<b>142,065,764.04</b>

##### 2) Notes receivable with provision for bad debt by groups

Name	Carrying amount	Balance at the end of the period	
		Provision for bad debts	Provision (%)
Bank acceptance bills	<b>136,214,870.54</b>		
<b>Total</b>	<b>136,214,870.54</b>		

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

Item	Pledged amount at the end of the period
Bank acceptance bills	<b>28,361,974.13</b>
<b>Total</b>	<b>28,361,974.13</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 3. Notes receivable (Continued)

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

Item	Amounts derecognized at the end of the period	Amounts not yet derecognized at the end of the period
Bank acceptance bills	<b>270,019,816.15</b>	
Total	<b>270,019,816.15</b>	

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

#### 4. Accounts receivable

##### (1) Breakdown

##### 1) Breakdown by types

Type	Balance at the end of the period				Book value
	Carrying amount Amount	(%)	Provision for bad debts Amount	(%)	
Accounts receivable with bad debt provision on individual basis	<b>6,159,440.61</b>	<b>1.38%</b>	<b>5,471,358.11</b>	<b>88.83%</b>	<b>688,082.50</b>
Accounts receivable with bad debt provision by groups	<b>440,396,425.95</b>	<b>98.62%</b>	<b>1,605,670.74</b>	<b>0.36%</b>	<b>438,790,755.21</b>
Total	<b>446,555,866.56</b>	<b>100.00%</b>	<b>7,077,028.85</b>	<b>1.58%</b>	<b>439,478,837.71</b>

Type	Balance at the beginning of the period				Book value
	Carrying amount Amount	(%)	Provision for bad debts Amount	(%)	
Accounts receivable with bad debt provision on individual basis	5,575,219.98	1.17%	5,012,902.80	89.91%	562,317.18
Accounts receivable with bad debt provision by groups	469,178,590.68	98.83%	1,126,354.82	0.24%	468,052,235.86
Total	474,753,810.66	100.00%	6,139,257.62	1.29%	468,614,553.04



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 4. Accounts receivable (Continued)

##### (1) Breakdown (Continued)

- 2) Individually significant amount with bad debt provision on individual basis

Description	Carrying amount	Balance at the end of the period		Reason for provision
		Provision for bad debts	Provision (%)	
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.	6,159,440.61	5,471,358.11	88.83%	The amount was not expected to be recovered in whole
Total	6,159,440.61	5,471,358.11		

- 3) Provision for bad debt by groups

Group	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Accounts receivable	440,396,425.95	1,605,670.74	0.36%
Total	440,396,425.95	1,605,670.74	

- 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, hereinafter the same)	414,350,192.76	248,610.11	0.06%
1-2 years	24,928,707.02	897,433.44	3.60%
2-3 years	835,109.14	177,210.16	21.22%
Over 3 years	282,417.03	282,417.03	100.00%
Total	440,396,425.95	1,605,670.74	0.36%

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 4. Accounts receivable (Continued)

##### (2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount Amount	(%)	Provision for bad debts	Carrying amount Amount	(%)	Provision for bad debts
Within 1 year	415,038,275.26	92.94%	248,610.11	453,488,096.59	95.52%	292,027.34
1-2 years	25,180,202.98	5.64%	1,148,929.40	15,079,464.71	3.18%	673,619.34
2-3 years	1,856,237.18	0.42%	1,198,338.20	1,867,853.03	0.39%	855,214.61
Over 3 years	4,481,151.14	1.00%	4,481,151.14	4,318,396.33	0.91%	4,318,396.33
Sub-total	<u>446,555,866.56</u>	<u>100.00%</u>	<u>7,077,028.85</u>	<u>474,753,810.66</u>	<u>100.00%</u>	<u>6,139,257.62</u>

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

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

##### (3) Provision for bad debts made, recovered and reversed for the current period

###### 1) Provision for bad debts made for the current period

Types	Balance at the beginning of the period	Change for the period			Balance at the end of the period
		Provision	Recovery or reversal	Write-off	
Accounts receivable	6,139,257.62	1,018,267.87		80,496.64	7,077,028.85
Total	<u>6,139,257.62</u>	<u>1,018,267.87</u>		<u>80,496.64</u>	<u>7,077,028.85</u>

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 4. Accounts receivable (Continued)

##### (4) Accounts receivable written off during the current period

Item	Write-off
Accounts receivable from FAW Bus and Coach Co., Ltd. (一汽客車有限公司)	80,496.64

Important accounts receivable written off:

Name	Nature of accounts receivable	Write-off	Reason for the write-off	Write-off procedure	Did a related party transaction occur in respect of the payment
FAW Bus and Coach Co., Ltd. (一汽客車有限公司)		80,496.64	Debt restructuring		No
Total		80,496.64			

##### (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)	81,386,802.51	18.23%	60,693.33
Anhui Jianghuai Automobile Group Corp., Ltd. (安徽江淮汽車集團股份有限公司)	32,197,306.22	7.21%	63,917.26
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	31,471,392.02	7.05%	18,882.84
FAW Jiefang Automobile Co., Ltd. (一汽解放汽車有限公司)	21,029,946.36	4.71%	12,617.96
Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司)	19,100,904.99	4.28%	11,460.54
Total	185,186,352.10	41.48%	167,571.93

## 5. Prepayments

### (1) Aging analysis

Ageing	Balance at the end of the period		Balance at the beginning of the period	
	Carrying amount	(%)	Carrying amount	(%)
Within 1 year	6,944,107.05	85.80%	5,162,785.29	86.60%
1-2 years	1,148,903.05	14.20%	798,545.90	13.40%
Total	8,093,010.10	100.00%	5,961,331.19	100.00%

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 5. Prepayments (Continued)

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

Name	Carrying amount	Percentage of the total prepayments carrying amount (%)
Benxi City Juxinda Machinery Manufacturing Co., Ltd. (本溪市聚鑫達機械製造有限公司)	2,964,188.80	36.63%
Chuzhou Haoyu Sliding Bearing Co., Ltd. (滁州市昊宇滑動軸承有限公司)	407,572.40	5.04%
Chiron Machine Tools (Taicang) Co., Ltd. (巨浪凱龍機床(太倉)有限公司)	362,899.39	4.48%
Jinlinsheng Electric Power Supply Company Siping City Electric Power Supply Company (吉林省電力有限公司四平供電公司)	289,837.57	3.58%
Inner Mongolia Branch of Groupama AVIC Property Insurance Company Limited (中航安盟財產保險有限公司內蒙古分公司)	279,000.00	3.45%
<b>Total</b>	<b>4,303,498.16</b>	<b>53.18%</b>

#### 6. Other receivables

##### (1) Breakdown

Item	Balance at the end of period	Balance at the beginning of the period
Other receivables	7,207,514.17	7,223,954.38
<b>Total</b>	<b>7,207,514.17</b>	<b>7,223,954.38</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 6. Other receivables (Continued)

##### (2) Other receivables

##### 1) Breakdown by types

Type	Carrying amount		Balance at the end of the period		Book value
	Amount	(%)	Amount	(%)	
Other accounts receivable with bad debt provision on individual basis	358,779.64	4.74%	358,779.64	100.00%	
Other accounts receivable with bad debt provision by groups	7,207,514.17	95.26%			7,207,514.17
Total	7,566,293.81	100.00%	358,779.64	4.74%	7,207,514.17

Type	Carrying amount		Balance at the beginning of the period		Book value
	Amount	(%)	Amount	(%)	
Other accounts receivable with bad debt provision on individual basis	358,779.64	4.73%	358,779.64	100.00%	
Other accounts receivable with bad debt provision by groups	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

##### 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
Receivables from Shenzhen Haoyuan Technology Company Limited (深圳市好域安科技有限公司) and etc.	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

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 6. Other receivables (Continued)

##### (2) Other receivables (Continued)

##### 3) Other receivables with bad debt provision 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	810,382.00		
Imprest receivable and etc.	2,657,508.48		
Advance payment for water and electric charges receivable	514,383.69		
Sub-total	7,207,514.17		

##### (3) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for bad debts		Carrying amount	Provision for bad debts	
	Amount	(%)		Amount	(%)	
Within 1 year	2,361,287.16	31.21%		2,656,192.74	35.03%	
1-2 years	1,163,501.49	15.38%		1,115,635.57	14.71%	
2-3 years	3,520,751.54	46.53%		3,477,592.04	45.86%	100,000.00
Over 3 years	520,753.62	6.88%	358,779.64	333,313.67	4.40%	258,779.64
Sub-total	7,566,293.81	100.00%	358,779.64	7,582,734.02	100.00%	358,779.64

##### (4) Provision for bad debts made, recovered and reversed for the current period

##### 1) Provision for bad debts made for the current period

Type	Balance at the beginning of the period	Change for the period		Balance at the end of the period
		Provision	Recovery or reversal	
Other receivables	358,779.64			358,779.64
Total	358,779.64			358,779.64

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

(5) There are no other receivables from products actually sold during the Period.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 6. Other receivables (Continued)

##### (6) Classification by nature of other receivables

Nature	Balance at the end of the period	Balance at the beginning of the period
Security deposits	810,382.00	704,952.00
Government provisional borrowings	3,225,240.00	3,225,240.00
Imprest	2,657,508.48	3,293,762.38
Advance payment for water and electric charges	514,383.69	
Others	358,779.64	358,779.64
Total	<b>7,566,293.81</b>	<b>7,582,734.02</b>

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

Name	Nature	Carrying amount	Ageing	Percentage of other receivables carrying amount (%)	Provision for bad debts
Jilin Tiedong Economic Development Zone Administrative Committee (吉林鐵東經濟開發區管理委員會)	Provisional borrowings	3,225,240.00	2-3 years	42.63%	
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	1-2 years	5.64%	
Panfar Construction Group Co., Ltd. (八方建設集團有限公司)	Advance payment for water and electric charges	458,360.19	within 1 year, 1-2 years	6.06%	
Shenzhen Haoyuan Technology Company Limited (深圳市好域安科技有限公司)	Others	234,542.00	Over 3 years	3.10%	234,542.00
Zhang Xiaogang (張曉剛)	Imprest	217,596.00	within 1 year	2.88%	
Total		<b>4,562,438.19</b>		<b>60.31%</b>	<b>234,542.00</b>

## 7. 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	80,693,504.20		80,693,504.20	79,925,390.95		79,925,390.95
Work-in-progress	27,976,939.25		27,976,939.25	28,061,200.70		28,061,200.70
Finished goods	171,919,265.04	3,293,629.63	168,625,635.41	188,414,111.22	3,629,447.06	184,784,664.16
Low-value consumables	7,842,373.98		7,842,373.98	3,846,226.56		3,846,226.56
Total	<b>288,432,082.47</b>	<b>3,293,629.63</b>	<b>285,138,452.84</b>	<b>300,246,929.43</b>	<b>3,629,447.06</b>	<b>296,617,482.37</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 7. Inventories (Continued)

##### (2) Provision

##### 1) Breakdown

Item	Balance at the beginning of the period	Increase during the period		Decrease during the period		Balance at the end of the period
		Provision	Others	Reversal or write-off	Others	
Finished goods	3,629,447.06	1,069,918.83		1,405,736.26		<b>3,293,629.63</b>
Sub-total	3,629,447.06	1,069,918.83		1,405,736.26		<b>3,293,629.63</b>

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

Item	Specific basis for determination of the 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	1.56%

#### 8. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax input tax recoverable	<b>15,276,237.66</b>	12,194,850.15
Prepaid expenses	<b>207,903.07</b>	325,758.80
Prepaid corporate income tax		1,504,287.83
Total	<b>15,484,140.73</b>	14,024,896.78

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (1) Notes to the consolidated Balance Sheet (Continued)

#### 9. Investment property

Item	Buildings and structures	Total
I. Original carrying amount		
1. Balance at the beginning of the period	24,285,332.35	24,285,332.35
2. Balance at the end of the period	24,285,332.35	24,285,332.35
II. Accumulated depreciation and accumulated amortization		
1. Balance at the beginning of the period	410,281.37	410,281.37
2. Increase during the period	512,205.87	512,205.87
(1) Provision or amortisation	512,205.87	512,205.87
3. Balance at the end of the period	922,487.24	922,487.24
III. Carrying amount		
1. Carrying amount at the end of the period	23,362,845.11	23,362,845.11
2. Carrying amount at the beginning of the period	23,875,050.98	23,875,050.98

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 10. Fixed assets

##### (1) Breakdown

Item	Buildings and structures	Equipment	Transportation vehicles	Other office equipment and others	Total
1. Cost					
1) Balance at the beginning of the period	340,893,394.20	725,445,079.25	20,235,755.46	25,235,481.86	1,111,809,710.77
2) Increase during the period		30,698,887.49	121,075.00	611,644.30	31,431,606.79
1. Purchase		3,773,431.40	58,620.69	160,257.68	3,992,309.77
2. Transfer from construction in progress		26,925,456.09	62,454.31	451,386.62	27,439,297.02
3) Decrease during the period		2,490,846.14	2,308,511.00	14,090.00	4,813,447.14
1. Disposal		2,490,846.14	2,308,511.00	14,090.00	4,813,447.14
4) Balance at the end of the period	340,893,394.20	753,653,120.60	18,048,319.46	25,833,036.16	1,138,427,870.42
2. Accumulated depreciation					
1) Balance at the beginning of the period	65,084,526.32	369,504,782.25	12,875,643.06	14,801,317.09	462,266,268.72
2) Increase during the period	5,322,468.99	28,752,067.77	1,094,958.75	999,414.06	36,168,909.57
1. Provision	5,322,468.99	28,752,067.77	1,094,958.75	999,414.06	36,168,909.57
3) Decrease during the period		666,696.45	2,193,085.45	13,107.00	2,872,888.90
1. Disposal		666,696.45	2,193,085.45	13,107.00	2,872,888.90
4) Balance at the end of the period	70,406,995.31	397,590,153.57	11,777,516.36	15,787,624.15	495,562,289.39
3. Provision					
1) Balance at the beginning of the period	825,717.39	245,524.61			1,071,242.00
2) Balance at the end of the period	825,717.39	245,524.61			1,071,242.00
4. Book value					
1) Book value at the end of the period	269,660,681.50	355,817,442.42	6,270,803.10	10,045,412.01	641,794,339.03
2) Book value at the beginning of the period	274,983,150.49	355,694,772.39	7,360,112.40	10,434,164.77	648,472,200.05

##### (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	21,111,551.45	Still under process
Wanda real estate	2,008,660.97	Still under process



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 11. 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	<b>16,866,070.40</b>		<b>16,866,070.40</b>	20,549,285.83		20,549,285.83
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	<b>39,932,921.14</b>		<b>39,932,921.14</b>	24,842,997.63		24,842,997.63
The New Shibao new plant (phase 2) project	<b>18,136,029.51</b>		<b>18,136,029.51</b>	17,817,670.03		17,817,670.03
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	<b>11,376,123.47</b>		<b>11,376,123.47</b>	8,397,966.95		8,397,966.95
The research and development centre of automotive intelligent technology project	<b>264,573.80</b>		<b>264,573.80</b>	247,843.67		247,843.67
Other sundry projects	<b>34,083,336.66</b>		<b>34,083,336.66</b>	29,991,693.86		29,991,693.86
Total	<b>120,659,054.98</b>		<b>120,659,054.98</b>	101,847,457.97		101,847,457.97

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

Project name	Budget (RMB'0,000)	Balance at the beginning of the period			Transfer to fixed assets	Other decrease	Balance at the end of the period
		Balance at the beginning of the period	Increase during the period	Decrease during the period			
The precious casting and processing of automotive components project	23,536.41	20,549,285.83	662,954.70	4,346,170.13		<b>16,866,070.40</b>	
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	36,067.10	24,842,997.63	34,468,698.38	19,378,774.87		<b>39,932,921.14</b>	
The New Shibao new plant (phase 2) project	2,600.00	17,817,670.03	318,359.48			<b>18,136,029.51</b>	
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	81,141.67	8,397,966.95	3,329,880.66	351,724.14		<b>11,376,123.47</b>	
The research and development centre of automotive intelligent technology project	15,002.56	247,843.67	16,730.13			<b>264,573.80</b>	
Other sundry projects		29,991,693.86	7,454,270.68	3,362,627.88		<b>34,083,336.66</b>	
Total		101,847,457.97	46,250,894.03	27,439,297.02		<b>120,659,054.98</b>	

Project name	Percentage of accumulative invested amount to budget (%)	Construction progress (%)	Accumulated amount of capitalized interests	Including: 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	33.88%	35%				Internal fund Fund raising
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	37.91%	40%				Internal fund Fund raising
The New Shibao new plant (phase 2) project	69.75%	70%				Internal fund
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	3.49%	5%				Internal fund
The research and development centre of automotive intelligent technology project	0.53%	1%				Internal fund
Other sundry projects						Internal fund
Total						

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 12. Intangible assets

##### (1) Breakdown

Item	Land use right	Patented technology	Non-patented technology	Management software	Total
1. Cost					
1) Balance at the beginning of the period	105,118,627.43	1,281,666.67	48,696,372.12	5,785,665.00	160,882,331.22
2) Increase during the period	614,401.00			234,020.44	848,421.44
(1) Purchase	614,401.00			234,020.44	848,421.44
3) Balance at the end of the period	105,733,028.43	1,281,666.67	48,696,372.12	6,019,685.44	161,730,752.66
2. Accumulated amortization					
1) Balance at the beginning of the period	21,400,649.60	1,046,698.28	43,872,048.26	3,928,946.48	70,248,342.62
2) Increase during the period	1,065,910.70	64,083.82	1,220,416.40	430,157.30	2,780,568.22
(1) Provision	1,065,910.70	64,083.82	1,220,416.40	430,157.30	2,780,568.22
3) Balance at the end of the period	22,466,560.30	1,110,782.10	45,092,464.66	4,359,103.78	73,028,910.84
3. Book value					
1) Book value at the end of the period	83,266,468.13	170,884.57	3,603,907.46	1,660,581.66	88,701,841.82
2) Book value at the beginning of the period	83,717,977.83	234,968.39	4,824,323.86	1,856,718.52	90,633,988.60

##### (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	83,266,468.13	83,717,977.83
Including: interim lease	83,266,468.13	83,717,977.83
Sub-total	83,266,468.13	83,717,977.83

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 13. Goodwill

(1) Original carrying amount of goodwill

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

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

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

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

(1) Deferred income tax assets which are not offset

Item	Balance as at the end of the period		Balance as at the beginning of the period	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	<b>9,701,236.49</b>	<b>1,864,472.04</b>	8,715,416.42	1,718,633.10
Profits not realized from intra-group transactions	<b>2,036,022.56</b>	<b>280,558.32</b>	3,439,044.23	568,700.15
Accrued warranty expenses	<b>12,094,369.24</b>	<b>2,250,485.61</b>	9,126,049.87	1,508,405.77
Total	<b>23,831,628.29</b>	<b>4,395,515.97</b>	21,280,510.52	3,795,739.02

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 14. Deferred income tax assets and deferred income tax liabilities (Continued)

(2) Deferred income tax liabilities which are not offset

Item	Balance as at the end of the period		Balance as at the beginning of the period	
	Deductible temporary differences	Deferred income tax liabilities	Deductible temporary differences	Deferred income tax liabilities
Asset valuation surplus arising from business combination not under the common control	<b>11,725,811.24</b>	<b>2,931,452.77</b>	12,426,319.52	3,106,579.85
Total	<b>11,725,811.24</b>	<b>2,931,452.77</b>	12,426,319.52	3,106,579.85

Deductible temporary differences include:

- 1) There are taxable temporary differences arising from fair value adjustment on various identifiable assets and liabilities in acquiring Wuhu Sterling through business combination not under the common control in stages during 2013. The balance as at the beginning of 2019 was RMB11,016,485.86. During the period, taxable temporary differences of the reversal of fair value amortization was RMB316,008.30. As at 30 June 2019, the taxable temporary differences arising from such fair value adjustment amounted to RMB10,700,477.56.
- 2) In previous years, there were taxable temporary differences arising from fair value adjustment in various identifiable assets and liabilities in acquiring Beijing Autonics through business combination not under the common control. Its balance as at the beginning of 2019 was RMB1,409,833.66. During the period, taxable temporary differences of the reversal of fair value amortization was RMB384,499.98. As at 30 June 2019, the taxable temporary differences arising from such fair value adjustment amounted to RMB1,025,333.68.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 14. Deferred income tax assets and deferred income tax liabilities (Continued)

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

Item	Offset amount of deferred income tax assets and liabilities at the end of the period	Remaining deferred income tax assets or liabilities after offset at the end of the period	Offset amount of deferred income tax assets and liabilities at the beginning of the period	Remaining deferred income tax assets or liabilities after offset at the beginning of the period
Deferred income tax assets		<b>4,395,515.97</b>		
Deferred income tax liabilities		<b>2,931,452.77</b>		

(4) Analysis of unrecognized deferred income tax assets

Item	Balance as at the end of the period	Balance as at the beginning of the period
Deductible temporary differences	<b>669,421.99</b>	1,053,288.26
Deductible losses	<b>123,065,121.35</b>	86,509,774.82
Total	<b>123,734,543.34</b>	87,563,063.08

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

Year	Balance as at the end of the period	Balance as at the beginning of the period	Note
2019	<b>17,327,830.20</b>	17,327,830.20	
2020	<b>10,001,379.12</b>	10,001,379.12	
2021	<b>7,338,909.91</b>	7,338,909.91	
2022	<b>14,439,264.96</b>	14,439,264.96	
2023	<b>37,402,390.63</b>	37,402,390.63	
2024	<b>36,555,346.53</b>		
Total	<b>123,065,121.35</b>	86,509,774.82	



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 15. Other non-current assets

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
Prepaid for purchase of long-term assets	<b>55,430,854.03</b>		<b>55,430,854.03</b>	47,719,083.17		47,719,083.17
Total	<b>55,430,854.03</b>		<b>55,430,854.03</b>	47,719,083.17		47,719,083.17

#### 16. Short-term borrowings

Type	Balance at the end of the period (Note)	Balance at the beginning of the period
Guaranteed loans	<b>180,000,000.00</b>	20,000,000.00
Total	<b>180,000,000.00</b>	20,000,000.00

(Note): A guarantee for the amount of RMB90 million was provided by Zhang Shi Quan, while a guarantee for the remaining RMB90 million 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.

#### 17. Notes payable

##### (1) Breakdown

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	<b>72,268,612.47</b>	120,498,802.21
Total	<b>72,268,612.47</b>	120,498,802.21

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

#### 18. Accounts payable

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Operating purchase payable	<b>267,336,770.21</b>	287,133,565.26
Long-term assets purchase payable	<b>20,222,944.01</b>	21,099,098.91
Total	<b>287,559,714.22</b>	308,232,664.17

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 18. Accounts payable (Continued)

##### (2) Aging analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	<b>268,015,692.63</b>	297,625,066.68
1–2 years	<b>10,913,404.96</b>	3,744,206.81
2–3 years	<b>3,724,339.41</b>	4,202,557.32
Over 3 years	<b>4,906,277.22</b>	2,660,833.36
Total	<b>287,559,714.22</b>	308,232,664.17

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

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

#### 19. Receipts in advance

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Receipts in advance from house rent	<b>4,197,937.96</b>	2,090,618.17
Total	<b>4,197,937.96</b>	2,090,618.17

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

#### 20. 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
1. Short-term remuneration	12,869,724.74	67,338,591.84	69,059,626.53	<b>11,148,690.05</b>
2. Post-employment benefits – established withdrawal and deposit plan	711,360.87	4,896,946.65	5,536,541.48	<b>71,766.04</b>
Total	<u>13,581,085.61</u>	<u>72,235,538.49</u>	<u>74,596,168.01</u>	<b><u>11,220,456.09</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 20. 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
1. Salaries, bonus, allowances and subsidies	12,059,154.18	56,030,617.79	58,237,096.10	<b>9,852,675.87</b>
2. Staff welfare (Note)		6,083,918.30	5,655,106.98	<b>428,811.32</b>
3. Social insurance	547,499.77	3,353,307.64	3,847,326.39	<b>53,481.02</b>
Including: Medical insurance	484,342.36	2,861,504.39	3,310,344.34	<b>35,502.41</b>
Work injury insurance	14,110.65	174,436.96	187,442.89	<b>1,104.72</b>
Maternity insurance	49,046.76	317,366.29	349,539.16	<b>16,873.89</b>
4. Housing funds	40,300.00	885,828.24	885,828.24	<b>40,300.00</b>
5. Labour union funds and employee education funds	222,770.79	984,919.87	434,268.82	<b>773,421.84</b>
Total	<u>12,869,724.74</u>	<u>67,338,591.84</u>	<u>69,059,626.53</u>	<u><b>11,148,690.05</b></u>

(Note): Including non-monetary benefits (RMB549,817.92) are all corresponding provision of depreciation made on buildings and other assets provided to employee to use free of charge with an amount of RMB549,817.92.

##### (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
1. Basic pension insurance	679,708.35	4,727,244.60	5,344,177.95	<b>62,775.00</b>
2. Unemployment insurance	31,652.52	169,702.05	192,363.53	<b>8,991.04</b>
Total	<u>711,360.87</u>	<u>4,896,946.65</u>	<u>5,536,541.48</u>	<u><b>71,766.04</b></u>

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 21. Taxes payable

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax	1,250,954.81	253,849.07
Corporate income tax		602,699.27
Individual income tax	230,626.42	167,131.45
Urban maintenance and construction tax	101,970.75	32,034.74
Real estate tax	202,308.15	696,159.66
Others	189,943.22	154,080.50
Total	1,975,803.35	1,905,954.69

#### 22. Other payables

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Interests payable	1,107,370.82	910,048.62
Others	1,753,774.02	974,364.77
Total	2,861,144.84	1,884,413.39

##### (2) Interests payable

Item	Balance at the end of the period	Balance at the beginning of the period
Interest of long-term borrowings with periodic payments of interest and return of principal at maturity	882,136.12	882,136.12
Interest of short-term borrowings	225,234.70	27,912.50
Total	1,107,370.82	910,048.62

##### (3) Other payables

###### 1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Security deposits	1,293,973.15	664,605.00
Labour service company management fees		76,876.50
Others	459,800.87	232,883.27
Total	1,753,774.02	974,364.77

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 23. Contract liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Receipts in advance from sale of commodities	<b>10,261,231.72</b>	3,902,211.90
Total	<b>10,261,231.72</b>	3,902,211.90

#### 24. Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Accrued expenses	<b>16,563,367.59</b>	18,038,269.86
Total	<b>16,563,367.59</b>	18,038,269.86

#### 25. Long-term borrowings

##### (1) Breakdown

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

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

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

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

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



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 26. Deferred income

##### (1) Breakdown

Item	Balance at the beginning of the period (Note)	Increase during the period	Decrease during the period	Balance at the end of the period	Reason
Government grants	52,234,573.03	294,000.00	5,186,569.28	<b>47,342,003.75</b>	
Total	<u>52,234,573.03</u>	<u>294,000.00</u>	<u>5,186,569.28</u>	<b><u>47,342,003.75</u></b>	

(Note): Government grants to be amortized within one year (inclusive) amounted to RMB10,266,805.23, which was presented under other current liabilities on 31 December 2018; in accordance with the Notice on Revising and Issuing the Format of 2019 Financial Statements of General Enterprises (CK [2019] No.6) and the Accounting Standards for Business Enterprises published by the Ministry of Finance, the Company prepared the financial statements for 2019, and applied changes in accounting policies retrospectively, and such amount was correspondingly transferred from the balance of other current liabilities at the beginning of the period to the balance of deferred income at the beginning of the period.

(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.

#### 27. Share capital

Item	Balance at the beginning of the period	Increase/decrease during the period ("-" as decrease)					Balance at the end of the period
		Issuance of new shares	Bonus shares	Transfer from reserves	Others	Sub-total	
Shares with selling restrictions							
Shares held by domestic natural person	19,793,685.00						<b>19,793,685.00</b>
Shares without selling restrictions							
A Shares	553,065,952.00						<b>553,065,952.00</b>
H Shares	216,785,000.00						<b>216,785,000.00</b>
Total	<u>789,644,637.00</u>						<b><u>789,644,637.00</u></b>

#### 28. Capital reserve

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Capital premium (Share premium)	175,889,704.74			<b>175,889,704.74</b>
Other capital reserve	6,444,389.04			<b>6,444,389.04</b>
Total	<u>182,334,093.78</u>			<b><u>182,334,093.78</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 29. Surplus reserve

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory reserve funds	135,379,620.20			<b>135,379,620.20</b>
Total	<u>135,379,620.20</u>			<u><b>135,379,620.20</b></u>

#### 30. Retained earnings

Item	Balance for the current period	Balance for the corresponding period last year
Retained earnings at end of last year before adjustment	<b>371,188,331.83</b>	364,772,936.30
Total amount of adjustment of retained earnings at the beginning of the year (“+” as increase, “-” as decrease)		-395,716.48
Retained earnings at the beginning of the year after adjustment	<b>371,188,331.83</b>	364,377,219.82
Add: Net profit attributable to equity holders of the parent	<b>-18,428,119.21</b>	-5,856,497.62
Retained earnings at the end of the period	<u><b>352,760,212.62</b></u>	<u>358,520,722.20</u>

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

#### 1. Operating revenue/cost of sales

##### (1) Breakdown

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Main business	<b>444,176,981.03</b>	<b>371,677,810.55</b>	585,564,716.30	497,419,716.98
Other business	<b>6,336,086.14</b>	<b>1,163,653.39</b>	6,014,061.01	604,909.90
Total	<u><b>450,513,067.17</b></u>	<u><b>372,841,463.94</b></u>	<u>591,578,777.31</u>	<u>498,024,626.88</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.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 2. Business taxes and surcharges

Item	Balance for the current period	Balance for the corresponding period last year
Urban maintenance and construction tax	970,289.41	820,741.58
Education surcharge	415,766.90	356,598.34
Real estate tax	1,108,759.79	1,800,502.91
Land use tax	768,631.24	976,929.41
Vehicles and vessels use tax	22,133.28	26,604.48
Stamp duty	378,582.60	684,187.87
Local education surcharge	277,177.93	235,795.49
Environmental tax	1,005.23	159.31
Total	<b>3,942,346.38</b>	<b>4,901,519.39</b>

#### 3. Sales expenses

Item	Balance for the current period	Balance for the corresponding period last year
Transportation cost	11,059,398.12	14,033,353.51
Warranty fee	18,389,120.90	15,653,089.71
Wages, welfare and bonuses	4,105,396.30	4,733,865.63
Travelling expenses	1,233,324.88	1,284,196.42
Entertainment charge	2,058,701.09	1,700,594.14
Depreciation of fixed assets	111,775.49	143,900.08
Others	3,201,609.38	2,979,863.84
Total	<b>40,159,326.16</b>	<b>40,528,863.33</b>

#### 4. General and administration expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	19,337,668.01	20,369,716.94
Office cost	3,659,780.41	2,912,691.23
Professional service fee	2,035,521.60	3,780,396.01
Depreciation of fixed assets	2,800,115.68	2,009,359.86
Amortization of intangible assets	2,463,509.04	2,344,344.13
Other taxation	44,428.49	89,740.20
Travelling expenses	1,577,883.51	1,658,780.78
Entertainment charge	714,152.96	1,002,940.16
Others	64,845.93	1,340,477.71
Total	<b>32,697,905.63</b>	<b>35,508,447.02</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 5. Research and development expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	14,153,793.27	16,757,594.91
Direct investment	6,354,438.49	9,329,663.71
Energy costs	894,124.63	637,438.53
Depreciation of fixed assets	2,988,155.80	3,056,141.29
Amortization of intangible assets	610,119.48	593,565.23
Others	2,853,276.21	1,934,893.55
Total	<b>27,853,907.88</b>	<b>32,309,297.22</b>

#### 6. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	1,763,404.67	1,623,214.05
Interest income	-684,358.02	-2,320,584.46
Others	484,772.64	366,103.55
Total	<b>1,563,819.29</b>	<b>-331,266.86</b>

#### 7. Other gains

Source of other gains	Balance for the current period	Balance for the corresponding period last year
Government grants related to assets	5,186,569.28	4,456,022.79
Government grants related to income	1,461,973.69	2,615,700.00
Total	<b>6,648,542.97</b>	<b>7,071,722.79</b>

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.

#### 8. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Gains from bank short-term wealth management products	658,689.06	2,436,590.84
Total	<b>658,689.06</b>	<b>2,436,590.84</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 9. Credit impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debt losses on accounts receivable	-1,018,267.87	1,305,096.97
Total	-1,018,267.87	1,305,096.97

#### 10. Assets impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Inventory obsolescence losses and impairment losses on costs to fulfil a contract	-1,069,918.83	-1,804,899.72
Total	-1,069,918.83	-1,804,899.72

#### 11. Gains from disposal of assets

Source of gains from disposal of assets	Balance for the current period	Balance for the corresponding period last year
Gains from disposal of fixed assets	295,997.68	113,907.91

#### 12. Non-operating income

Item	Balance for the current period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Others	31,677.20	567,420.78	31,677.20
Total	31,677.20	567,420.78	31,677.20

#### 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 funds	72,059.77	43,996.02	
Others	225,746.33	370,557.99	225,746.33
Total	297,806.10	414,554.01	225,746.33



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

#### 14. Income tax expenses

##### (1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Current income tax	2,842.28	288,789.86
Deferred income tax	-774,904.03	59,966.91
Total	<b>-772,061.75</b>	348,756.77

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

Item	Balance for the current period
Total profit	-23,296,788.00
Income tax expenses calculated at legal/applicable tax rate	-5,824,197.00
Effects of different applicable tax rates on subsidiaries	1,094,036.93
Effects of adjusting income tax of prior periods	2,842.28
Effects on non-taxable income	-411,620.04
Effects on non-deductible costs, expenses and losses	380,712.26
Effects of deductible temporary difference arising from unrecognized deferred income tax assets or deductible loss during the period	6,623,423.63
Effects of including and excluding R&D expenses	-2,637,259.81
Income tax expenses	<b>-772,061.75</b>

(3) No provision for Hong Kong profits tax has been made for the period from January to June 2019 as the Company and its other subsidiaries had no profits generated in or arising from Hong Kong.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

Item	Balance for the current period	Balance for the corresponding period last year
Recovery of deposits including banker's acceptances	9,238,164.95	7,636,104.83
Receipt of government grants	1,461,973.69	2,615,700.00
Interest income	684,358.02	2,320,584.46
Others	1,105,086.45	567,420.78
Total	12,489,583.11	13,139,810.07

#### 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	34,939,597.25	29,998,775.15
Cash paid as general and administrative expenses	7,662,599.45	7,855,374.13
Cash paid as research and development expenses	4,255,836.14	2,572,332.08
Payment of deposits including banker's acceptances	14,165,261.54	15,401,595.73
Others	506,849.61	2,080,144.76
Total	61,530,143.99	57,908,221.85

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

Item	Balance for the current period	Balance for the corresponding period last year
Receipt of government grants which are asset related		629,200.00
Total		629,200.00

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

(1) Supplemental information on the statement of cash flows

Supplemental information	Balance for the current period	Balance for the corresponding period last year
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	<b>-22,524,726.25</b>	-10,436,180.88
Add: Provision for impairment to assets	<b>2,088,186.70</b>	499,802.75
Depreciation of fixed assets, oil and gas assets and production	<b>36,681,115.44</b>	33,865,221.34
Depreciation of right-of-use assets		
Amortization of intangible assets	<b>2,780,568.22</b>	3,701,450.13
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" as gains)	<b>-295,997.68</b>	-113,907.91
Losses on write-off of fixed assets ("-" as gains)		
Losses on changes of fair value ("-" as gains)		
Finance expenses ("-" as gains)	<b>1,950,633.82</b>	1,628,252.97
Investment losses ("-" as gains)	<b>-658,689.06</b>	-2,436,590.84
Decrease in deferred income tax assets ("-" as increase)	<b>-599,776.95</b>	235,093.99
Increase in deferred income tax liabilities ("-" as decrease)	<b>-175,127.08</b>	-175,127.08
Decrease in inventories ("-" as increase)	<b>11,814,846.96</b>	-30,705,699.23
Decrease in operational receivables ("-" as increase)	<b>17,078,456.18</b>	-16,333,742.15
Increase in operational payables ("-" as decrease)	<b>-55,282,763.04</b>	23,423,092.79
Other		
Net cash flows from operating activities	<b><u>-7,143,272.74</u></b>	<u>3,151,665.88</u>
2) Significant investment and financing activities not related to cash receipts and payments:		
Debt transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3) Net change in cash and cash equivalents:		
Cash at the end of the period	<b>239,438,138.57</b>	187,118,949.24
Less: Cash at the beginning of the period	<b>120,293,184.97</b>	160,425,712.97
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	<b><u>119,144,953.60</u></b>	<u>26,693,236.27</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

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

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

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

Item	Balance at the end of the period	Balance at the beginning of the period
1) Cash	<b>239,438,138.57</b>	120,293,184.97
Including: Cash on hand	<b>102,741.33</b>	276,914.88
Bank deposit readily available	<b>239,335,397.24</b>	120,016,270.09
Other monetary fund readily available		
Central bank deposit readily available		
Interbank deposit		
Interbank offer		
2) Cash equivalents		
Including: Bond investment due in three months		
3) Closing balance of cash and cash equivalents	<b>239,438,138.57</b>	120,293,184.97
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 period of January to June 2019 was RMB239,438,138.57 and closing balance of cash on hand and at bank in the balance sheet as at 30 June 2019 was RMB253,603,400.11. The difference of RMB14,165,261.54 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 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.

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

Item	Balance for the current period	Balance for the corresponding period last year
Transferred endorsed commercial bill	<b>299,932,493.39</b>	411,919,518.47
Including: Bills payable	<b>298,136,493.39</b>	398,645,998.10
Payment for the purchase of long-term assets such as fixed assets	<b>1,796,000.00</b>	13,273,520.37

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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	<b>14,165,261.54</b>	Security deposits for the notes pool
Bills receivable	<b>28,361,974.13</b>	Pledge of the notes pool
Fixed assets	<b>4,121,850.34</b>	Borrowing credit mortgage
Intangible assets	<b>3,150,470.63</b>	Borrowing credit mortgage
Total	<b>49,799,556.64</b>	

#### 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			7,567,178.14
Including: US Dollar	<b>973,213.59</b>	6.8747	6,690,551.46
Euro	<b>112,143.62</b>	7.817	876,626.68
Accounts receivable			998,622.45
Including: Euro	<b>127,750.09</b>	7.817	998,622.45
Contract liabilities			7,582,829.02
Including: US Dollar	<b>85,615.03</b>	6.8747	588,577.65
Euro	<b>894,748.80</b>	7.817	6,994,251.37



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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	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	9,459,166.72		1,594,999.98	7,864,166.74	Other gains	Note 1
Subsidy funds for the precious casting and processing of automotive components project	4,227,116.45		51,480.18	4,175,636.27	Other gains	Note 2
Special funds for establishment of a platform for public services provided in foreign trading	1,049,151.70		182,589.30	866,562.40	Other gains	Note 3
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	1,841,440.00		324,960.00	1,516,480.00	Other gains	Note 4
Heavy load hydraulic rack-and-pinion steering gear for high class market	218,204.32		38,506.68	179,697.64	Other gains	Note 5
Subsidies for research and development equipment	130,533.35		16,316.67	114,216.68	Other gains	Note 6
Technological improvement project for quality enhancement of rack-and-pinion steering gears	4,337,406.20		371,777.70	3,965,628.50	Other gains	Note 7
Construction project for development service platform of automotive steering system parts and components	17,805,620.35		1,723,124.58	16,082,495.77	Other gains	Note 8
The annual production of 100,000 electric power steering system project	1,128,888.89		70,555.56	1,058,333.33	Other gains	Note 9
The annual production of 100,000 medium and heavy duty commercial vehicles intelligent steering industrialization development project	9,315,151.50		642,424.26	8,672,727.24	Other gains	Note 10
Technical improvement project of production capacity increasing of 500,000 units/sets of steering gear	1,239,300.96		81,712.14	1,157,588.82	Other gains	Note 11
Key technological research project for high-safety smart automobile steer-by-wire system	900,000.00		45,000.00	855,000.00	Other gains	Note 12
Comprehensive rewards for technical innovation	582,592.59		34,955.56	547,637.03	Other gains	Note 13
Subsidies for industrial development, research and development of supporting instruments		294,000.00	8,166.67	285,833.33	Other gains	Note 14
Sub-total	<u>52,234,573.03</u>	<u>294,000.00</u>	<u>5,186,569.28</u>	<u>47,342,003.75</u>		

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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知》) (Hang Cai Qi (2013)No. 1550) (杭財企[2013]1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee (杭州市財政局、杭州市經濟和信息化委員)
- (Note 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知》) (Hang Cai Qi (2013)No. 1550) (杭財企[2013]1550號) issued by Hangzhou Municipal Bureau of Finance and Economy and Information Committee.
- (Note 6) "Notice of Granting of Special Fund Program (Incentives and Subsidies) on Building Innovative Province of Anhui Province 2014" (《關於下達2014年安徽省創新型省份建設專項資金計劃(獎補類)的通知》) (Ke Ji (2014)No. 58) (科計[2014]58號) issued by Anhui Province Department of Science and Technology (安徽省科技廳) and "Publicity of Acceptance of Industry Transform Projects and Investment of Individual Equipment Subsidies Projects" (《關於承接產業轉移項目和單台設備投資補助項目的公示》) issued by Wuhu Municipal economy and information technology department (蕪湖市經信委技術科)
- (Note 7) "Supporting Fund for Special Technological Upgrade and Internet-of-Things Projects in Manufacturing Sector on Provincial and Municipal Development Industrialization and Information Technology in 2015" (《2015年省市工業和信息化發展財政專項技術改造和工廠物聯網項目資助資金》) (Hang Jing Kai Jing (2015) No. 353) (杭經開經[2015]353號) issued by Bureau of Economic Development, Bureau of Finance of Hangzhou Economic and Technology Zone (杭州經濟技術開發區經濟發展局、財政局)
- (Note 8) "Notice of Budget being Approved for Central Government Infrastructure Investment (2nd Batch of Urban and Old Industrial Zone Relocation and Upgrade) for 2015" (《關於下達2015年中央基建投資(城區老工業區搬遷改造第二批)預算的通知》) (Ji Cai Jian (2015) No. 1038) (吉財建指[2015]1038號) issued by Department of Finance of Jilin Province (吉林省財政廳)

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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) According to the Notice Regarding the Transmit of the Interim Measures on the Comprehensive Rewards and Subsidies of the Technical Innovation and Investment of Industrial Enterprises in Wuhu City issued by the Commission of Economy and Information Technology and Bureau of Finance by the Office of the People’s Government of Wuhu City (Wu Zheng Ban [2017] No. 9) (蕪湖市人民政府辦公室關於轉發市經信委市財政局蕪湖市工業企業技術改造投資綜合獎補暫行辦法的通知蕪政辦[2017]9號).

(Note 14) Notice on Printing and Distributing Several Policies to Support Scientific and Technological Innovation (WZ[2017] No. 52) published by the People’s Government of Anhui Province, and Notice on the Policy-based Capital Plan for Purchasing Research and Development Instruments, Equipment and Otherwise in 2018 (KJ[2018] No. 97) published by the Anhui Province Department of Science and Technology.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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
Bailout awards and subsidies for of key enterprises	500,000.00	Other gains	Allocation under the Factor Method for Special Fund Projects for the Development of Provincial Key Industries in 2018 in Tiedong District published by the Economic Bureau of Tiedong District (四平市鐵東區經濟局), Siping City and the Finance Bureau of Tiedong District, Siping City (四平市鐵東區財政局)
Special financial funds for industry and information technology development in Hangzhou in 2018	203,700.00	Other gains	Notice on Provision of the First Tranche of Special Financial Funds for Industry and Information Technology Development in Hangzhou in 2018 (HJKJ[2018] No.217) published by the Economic Development Bureau of Hangzhou Economic and Technological Development Area (杭州經濟技術開發區經濟發展局) and the Finance Bureau of Hangzhou Economic and Technological Development Area (杭州經濟技術開發區財政局)
Central service trade innovation and development project funds in 2018	79,200.00	Other gains	Notice on Appointment of Personnel for Central Service Trade Innovation and Development Project Funds in 2018 for Settlement published by the Hangzhou Bureau of Finance and Hangzhou Municipal Commission of Commerce (Hangzhou Municipal Bureau of Food)
Awards for selection of high-skilled talents for the development area in 2018	4,000.00	Other gains	Notice on Appropriation of Awards for Selection of High-skilled Talents for the Development Area in 2018 (HJKR [2018] No.26) published by the Human Resources and Social Security Bureau of Hangzhou Economic and Technological Development Area and the Finance Bureau of Hangzhou Economic and Technological Development Area.
Employment stabilization subsidies for small and micro businesses in 2019	21,105.00	Other gains	Opinions on Supporting Mass Entrepreneurship for Promoting Employment (HZH [2015] No.174) published by Hangzhou Municipal People's Government
Special financial funds for promoting business development (foreign economy and trade) in 2017 in Hangzhou Economic and Technological Development Area	3,000.00	Other gains	Notice on Provision of Special Financial Funds for Promoting Business Development (Foreign Economy and Trade) in 2017 in Hangzhou Economic and Technological Development Area (HJKS [2019] No.4) published by the Bureau of Commerce of Hangzhou Economic and Technological Development Area and the Finance Bureau of Hangzhou Economic and Technological Development Area

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (4) Others (Continued)

#### 3. Government grants (Continued)

##### (1) Breakdown (Continued)

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

Item	Amount	Presented items	Description
Employment stabilization subsidies	89,771.59	Other gains	Notice on Provision of Unemployment Insurance to Support Enterprises in Employment Stabilization (Protection Initiative) (JRSLZ [2018] No.54) published by the Jilin Province Department of Human Resources and Social Security, the Jilin Province Department of Finance and the Jilin Province Administration of Social Insurance
Return of social insurance contributions	338,394.45	Other gains	Explanation for the policy of return of social insurance contributions of enterprises for employment stabilization with regard to unemployment insurance in Yiwu City
Staged reduction in the employment injury insurance construction ratio	22,802.65	Other gains	Notice on Matters Concerning Staged Reduction in the Employment Injury Insurance Construction Ratio (HRSF [2018] No.268) published by the Human Resources and Social Security Bureau of Hangzhou, the Hangzhou Bureau of Finance and the Hangzhou Taxation Bureau
Key research and development plan of Anhui Province in 2018	200,000.00	Other gains	Notice on Projects under Key Research and Development Plans in Anhui Province in 2018 (KJ [2018] No.34) published by the Anhui Province Department of Science and Technology
Sub-total	<u>1,461,973.69</u>		

- (2) Government grants credited to the current profit or loss for the period amounted to RMB6,648,542.97.

#### 4. Interest expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	<b>1,763,404.67</b>	1,623,214.05
Including: Bank loans, interests of other loans fully repayable within 5 years	<b>1,763,404.67</b>	1,623,214.05
Interests of other loans not fully repayable within 5 years		
Less: Capitalized interests		
Finance cost — interest expenses	<b>1,763,404.67</b>	1,623,214.05

During the period from January to June 2019 and from January to June 2018, there was no interest capitalization.



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 6. OWNER'S EQUITY IN OTHER ENTITIES

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

#### 1. Particulars of significant subsidiaries

Name of subsidiary	Principal place of business	Place of registration	Nature of business	Percentage of shareholding		Method of ownership
				Direct	Indirect	
Hangzhou Shibao 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
Beijing Autonics Technology Co., Ltd.	Beijing/PRC	Beijing/PRC	Manufacturing	100.00%		Business combination not under common control
Wuhu Sterling Steering System Co., Ltd.	Anhui Wuhu/PRC	Anhui Wuhu/PRC	Manufacturing	57.89%		Business combination not under common control
Erdos Sterling Steering System Co., Ltd.	Inner Mongolia/PRC	Inner Mongolia/PRC	Manufacturing		57.89%	Business combination not under common control

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

Name of subsidiary	Percentage of shareholding of minority shareholders	Profit or loss contributed to minority shareholders of the current period	Declared dividends distribution to minority shareholders of the current period	Balance of minority shareholders' equity at the end of the period
Hangzhou New Shibao Electric Power Steering Co., Ltd.	10.00%	-466,657.67		-1,052,883.50
Wuhu Sterling Steering System Co., Ltd.	42.11%	-3,629,949.37		8,931,754.62

#### 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.	176,085,835.80	74,396,162.88	250,481,998.68	259,870,359.93	866,562.40	260,736,922.33
Wuhu Sterling Steering System Co., Ltd.	76,357,772.11	50,686,950.35	127,044,722.46	101,153,051.67	4,681,139.75	105,834,191.42

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.	212,227,189.95	73,949,960.97	286,177,150.92	290,716,346.19	1,049,151.70	291,765,497.89
Wuhu Sterling Steering System Co., Ltd.	90,539,784.50	53,526,433.08	144,066,217.58	109,639,390.29	4,596,136.29	114,235,526.58

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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
	Operating revenue	Net profit	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	116,254,154.49	-4,666,576.68	-4,666,576.68	2,823,208.52
Wuhu Sterling Steering System Co., Ltd.	18,089,866.52	-8,620,159.97	-8,620,159.97	2,833,699.69

Name of subsidiary	Balance for the corresponding period last year			Cash flows from operating activities
	Operating revenue	Net profit	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	184,681,434.09	-9,517,132.73	-9,517,132.73	2,020,183.44
Wuhu Sterling Steering System Co., Ltd.	45,161,093.87	-4,095,329.95	-4,095,329.95	1,800,472.85

## 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	866,504,622.53	807,435,621.38
Including: Cash on hand and at bank	253,603,400.11	129,531,349.92
Short-term bank wealth management products	30,000,000.00	60,000,000.00
Notes receivable	136,214,870.54	142,065,764.04
Accounts receivable	439,478,837.71	468,614,553.04
Other receivables	7,207,514.17	7,223,954.38
Financial liabilities	551,769,471.53	459,695,879.77
Including: Bank and other borrowings	189,080,000.00	29,080,000.00
Notes payable	72,268,612.47	120,498,802.21
Accounts payable	287,559,714.22	308,232,664.17
Interests payable	1,107,370.82	910,048.62
Other payables	1,753,774.02	974,364.77

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

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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 30 June 2019, the Company had certain concentration of credit risk as 41.48% (31 December 2018: 34.93%) 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	Neither past due nor impaired	Balance at the end of the period			Total
		Past due but not impaired			
		Within 1 year	1-2 years	Over 2 years	
Cash on hand and at bank	253,603,400.11				253,603,400.11
Short-term bank wealth management products	30,000,000.00				30,000,000.00
Notes receivable	136,214,870.54				136,214,870.54
Other receivables	7,207,514.17				7,207,514.17
<b>Total</b>	<b>427,025,784.82</b>				<b>427,025,784.82</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (2) Credit risk (Continued)

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: (Continued)

Item	Neither past due nor impaired	Balance at the beginning of the period			Total
		Past due but not impaired			
		Within 1 year	1-2 years	Over 2 years	
Cash on hand and at bank	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
<b>Total</b>	<b>338,821,068.34</b>				<b>338,821,068.34</b>

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

Item	Balance at the beginning of the period	Increase during the period			Decrease during the period			Balance at the end of the period
		Provision	Recovery	Others	Reversal	Write-off	Others	
Lifetime expected credit losses (stage 3, non-purchased or originated credit-impaired financial instruments)								
Other receivables	358,779.64							358,779.64
<b>Sub-total</b>	<b>358,779.64</b>							<b>358,779.64</b>
Lifetime expected credit loss (items which are provided for, based on the lifetime expected credit loss)								
Notes receivable								
Accounts receivable	6,139,257.62	1,018,267.87				80,496.64		7,077,028.85
<b>Sub-total</b>	<b>6,139,257.62</b>	<b>1,018,267.87</b>				<b>80,496.64</b>		<b>7,077,028.85</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (3) Liquidity risk

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

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

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

#### 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	253,603,400.11	253,603,400.11	253,603,400.11		
Short-term bank wealth management products	30,000,000.00	30,000,000.00	30,000,000.00		
Notes receivable	136,214,870.54	136,214,870.54	136,214,870.54		
Accounts receivable	439,478,837.71	439,478,837.71	439,478,837.71		
Other receivables	7,207,514.17	7,207,514.17	7,207,514.17		
Total	<u>866,504,622.53</u>	<u>866,504,622.53</u>	<u>866,504,622.53</u>		

Item	Carrying value	Balance at the beginning of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Cash on hand and at bank	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	<u>807,435,621.38</u>	<u>807,435,621.38</u>	<u>807,435,621.38</u>		



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (3) Liquidity risk (Continued)

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

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank and other borrowings	189,080,000.00	202,854,525.45	193,753,136.56	9,101,388.89	
Notes payable	72,268,612.47	72,268,612.47	72,268,612.47		
Accounts payable	287,559,714.22	287,559,714.22	287,559,714.22		
Interest payable	1,107,370.82	1,107,370.82	1,107,370.82		
Other payables	1,753,774.02	1,753,774.02	1,753,774.02		
Total	551,769,471.53	565,543,996.98	556,442,608.09	9,101,388.89	

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	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	

### (4) Market risk

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

#### 1. Interest rate risk

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

As at 30 June 2019, the bank borrowings of the Company with floating interest rates were RMB180,000,000.00 (31 December 2018: RMB20,000,000.00), and a reasonable and possible 50% base point change in interest rates, with all other variables held constant, will not have any significant impact on total profit and shareholders' equity of the Company.

#### 2. Foreign exchange risk

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

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

### (5) Capital risk management

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

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. As at 30 June 2019, the Company's gearing ratio was 4.55% (2018:-6.52%). The calculation is described as follow:

Item	Balance at the end of the period	Balance at the beginning of the period
Total borrowings	189,080,000.00	29,080,000.00
Less: Cash and cash equivalents	119,144,953.60	120,293,184.97
Net debt	69,935,046.40	-91,213,184.97
Equity	1,467,997,434.72	1,490,522,160.97
Total capital	1,537,932,481.12	1,399,308,976.00
Gearing ratio	4.55%	-6.52%

## 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			30,000,000.00	30,000,000.00
Total assets measured at fair value on a recurring basis			30,000,000.00	30,000,000.00

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 8. FAIR VALUE DISCLOSURE (Continued)

### (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 of the Company

##### (1) Parent company of the Company

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

Name of parent company	Place of registration	Nature of business	Registered capital (RMB0,000)	Shareholding % in the Company	Voting % in the Company
Shibao Holding	Zhejiang Yiwu	Industrial investment	5,000.00	43.28	43.28

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

2. Details of the Company's subsidiaries are set out in the notes to the financial statements "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

*Related party transactions for sale of goods and provisions of labour services*

Related Party	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.	11,085.84	

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (2) Related parties transactions (Continued)

#### 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 and structures	<b>171,428.57</b>	

#### 3. Guarantee with related parties

The Company and its subsidiaries as the secured parties

Guarantor	Guaranteed amount	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fully fulfilled	Note
Shibao Holding, 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	4,530,000.00	2019.01.28– 2019.06.27	2019.07.29– 2019.12.28	No	Bankers acceptance
Shibao Holding, 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	90,000,000.00	2018.07.13– 2019.06.10	2019.07.10– 2020.03.19	No	Bank loans
Zhang Shi Quan	90,000,000.00	2019.02.27– 2019.05.24	2020.02.25– 2020.05.24	No	Bank loans
Shibao Holding	25,552,222.16	2019.01.28– 2019.03.15	2019.07.28– 2019.09.15	No	Bankers acceptance

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

#### 1. Payables to related parties

Item	Related party	Balance at the end of the period	Balance at the beginning of the period
Notes payable	Zhejiang Shibao (Note)	<b>3,190,000.00</b>	4,460,000.00
	Hangzhou Shibao (Note)	<b>2,040,000.00</b>	170,000.00
	Hangzhou New Shibao (Note)	<b>15,167,222.16</b>	31,114,000.00
	Jilin Shibao		5,300,000.00
	Beijing Autonics (Note)	<b>2,450,000.00</b>	4,434,285.32
	Wuhu Sterling		200,000.00
Total		<b>22,847,222.16</b>	45,678,285.32

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	1,923,183.78	1,603,890.22
Other key management	247,754.14	2,381,301.99
Total	<b>2,170,937.92</b>	3,985,192.21

## 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	87,167,063.43	98,750,837.23

### (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

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

## 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 95.41% of the operating 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 during the period from January to June 2019 is as follows:

Name of customer	Operating revenue	Proportion to total operating revenue of the Company (%)
Zhejiang Yuanjing Auto Parts Co., Ltd. (浙江遠景汽配有限公司)	90,477,924.71	20.08%
Anhui Jianghuai Automobile Group Co., Ltd (徽江淮汽車集團股份有限公司)	50,886,480.97	11.30%



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 12. OTHER IMPORTANT MATTERS (Continued)

### (1) Segment Information (Continued)

#### 2. Information about major customers (Continued)

(2) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company during the period from January to June 2018 is as follows:

Name of customer	Operating revenue	Proportion to total operating revenue of the Company
Zhejiang Yuanjing Auto Parts Co., Ltd. (浙江遠景汽配有限公司)	<b>123,496,037.11</b>	<b>20.88%</b>

### (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	<b>588,311,957.96</b>	<b>385,032,080.04</b>	633,905,311.72	467,985,750.81
Total assets less current liabilities	<b>1,527,350,891.24</b>	<b>1,102,799,829.29</b>	1,554,943,313.85	1,109,895,382.51

## 13. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

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

#### 1. Accounts receivable

(1) Breakdown

1) Breakdown by types

Type	Balance at the end of the period		Provision for bad debts	Book value
	Carrying amount	(%)		
	Amount	(%)	Amount	(%)
Accounts receivable with bad debt provision on individual basis	<b>292,979.00</b>	<b>0.52%</b>	<b>292,979.00</b>	<b>100.00%</b>
Accounts receivable with bad debt provision by groups	<b>56,060,933.48</b>	<b>99.48%</b>		<b>56,060,933.48</b>
Total	<b>56,353,912.48</b>	<b>100.00%</b>	<b>292,979.00</b>	<b>0.52%</b>

Type	Balance at the beginning of the period		Provision for bad debts	Book value
	Carrying amount	(%)		
	Amount	(%)	Amount	(%)
Accounts receivable with bad debt provision on individual basis	292,979.00	0.49%	292,979.00	100.00%
Accounts receivable with bad debt provision by groups	59,046,605.48	99.51%	1.92	59,046,603.56
Total	59,339,584.48	100.00%	292,980.92	0.49%

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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. Accounts receivable (Continued)

##### (1) Breakdown (Continued)

##### 2) Accounts receivable with bad debt provision on individual basis

Name	Balance at the end of the period			Reason for provision
	Carrying amount	Provision for bad debts	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
Total	292,979.00	292,979.00		

##### (2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Proportion (%)	Provision for bad debts	Carrying amount	Proportion (%)	Provision for bad debts
Within 1 year	9,905,072.34	17.58%		15,473,274.36	26.08%	1.92
1-2 years	14,286,773.38	25.35%		17,924,758.82	30.21%	
2-3 years	23,646,223.01	41.96%		25,648,572.30	43.22%	
Over 3 years	8,515,843.75	15.11%	292,979.00	292,979.00	0.49%	292,979.00
Sub-total	56,353,912.48	100.00%	292,979.00	59,339,584.48	100.00%	292,980.92

##### (3) Provision for bad debts made, recovered and reversed for the current period

##### 1) Provision for bad debts made for the current period

Type	Balance at the beginning of the period	Change for the period			Balance at the end of the period
		Provision	Recovery or reversal	Write-off	
Accounts receivable	292,980.92	-1.92			292,979.00
Total	292,980.92	-1.92			292,979.00

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

##### (4) There are no 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	56,060,933.48	99.48%	
Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd. (贛州江環汽車製造有限公司)	125,000.00	0.22%	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	0.08%	43,400.00
Dongfeng Motor Transmission Shaft Co., Ltd. Shiyuan Sub-company (東風汽車傳動軸有限公司十堰分公司)	36,000.00	0.06%	36,000.00
Luoyang Biao Ma Vehicle Co., Ltd. (洛陽彪馬車輛有限公司)	32,770.00	0.06%	32,770.00
Sub-total	56,298,103.48	99.90%	237,170.00

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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

##### (1) Breakdown

##### 1) Breakdown by types

Type	Balance at the end of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Other accounts receivable with bad debt provision by groups	<u>408,142,667.25</u>	<u>100.00%</u>			<u>408,142,667.25</u>
Total	<u>408,142,667.25</u>	<u>100.00%</u>			<u>408,142,667.25</u>

Type	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Other accounts receivable with bad debt provision by groups	<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>

##### 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 (%)
Related party dealings within the scope of combination	<u>407,349,998.05</u>		
Advance payment for water and electric charges	<u>514,383.69</u>		
Reserves and etc.	<u>278,285.51</u>		
Sub-total	<u>408,142,667.25</u>		

##### (2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount			Carrying amount		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
Within 1 year	<u>60,617,430.44</u>	<u>14.85%</u>		43,182,374.93	11.57%	
1-2 years	<u>41,204,318.61</u>	<u>10.10%</u>		33,144,849.35	8.88%	
2-3 years	<u>21,421,254.12</u>	<u>5.25%</u>		136,031,146.92	36.44%	
Over 3 years	<u>284,899,664.08</u>	<u>69.80%</u>		160,932,967.60	43.11%	
Sub-total	<u>408,142,667.25</u>	<u>100.00%</u>		<u>373,291,338.80</u>	<u>100.00%</u>	

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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)

##### (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	407,349,998.05	373,015,681.73
Security deposits		10,100.00
Imprest	177,650.92	7,364.67
Advance payment for water and electric charges	514,383.69	
Others	100,634.59	258,192.40
Sub-total	408,142,667.25	373,291,338.80

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

Name	Nature of receivables	Carrying amount	Age	Percentage to the balance of other receivables (%)	Provision for bad debts
Jilin Shibao	Current accounts	138,159,221.11	Within 1 year, 1-2 years, 2-3 years, Over 3 years	33.85%	
Beijing Autonics	Current accounts	117,866,274.78	Within 1 year, 1-2 years, 2-3 years, Over 3 years	28.88%	
Hangzhou New Shibao	Current accounts	112,212,484.78	Within 1 year, 1-2 years, 2-3 years, Over 3 years	27.49%	
Hangzhou Shibao	Current accounts	39,112,017.38	Within 1 year	9.58%	
Panfar Construction Group Co. Ltd. (八方建設集團有限公司)	Advance payment for water and electric charges	458,360.19	Within 1 year, 1-2 years	0.11%	
Total		407,808,358.24		99.91%	

#### 3. Long-term equity investments

##### (1) Breakdown

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (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)

##### (2) Investment in subsidiaries

Investees	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Provision for impairment during the period	Provision for impairment at the end of the period
Hangzhou Shibao	70,461,807.49			70,461,807.49		
Hangzhou New Shibao	42,000,000.00			42,000,000.00		
Jilin Shibao	43,250,000.00			43,250,000.00		
Beijing Autonics	10,000,000.00			10,000,000.00		
Wuhu Sterling	19,447,407.38			19,447,407.38		
Total	185,159,214.87			185,159,214.87		

##### (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. Operating revenue/cost of sales

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Main business	17,463,234.15	18,498,611.30	23,316,264.84	18,975,052.48
Other business	1,871,143.05	681,755.99	189,074.32	78,860.87
Total	19,334,377.20	19,180,367.29	23,505,339.16	19,053,913.35

#### 2. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Gains from bank short-term wealth management products	159,317.65	2,287,030.23
Total	159,317.65	2,287,030.23



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## 14. OTHER SUPPLEMENTAL INFORMATION

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

Item	Amount
Gain or loss on disposal of non-current assets	295,997.68
Government subsidy included in profit or loss for the period, except for those closely relevant to normal business of the company, conformed to requirements of State policy, granted on fixed amount basis or enjoyed on continuous fixed amount basis	6,648,542.97
Gain or loss on entrusted investment or asset management	658,689.06
Other non-operating income and expenses apart from those stated above	-194,069.13
Less: Effect on enterprise income tax	
Effect on interest of minority shareholders	181,239.99
Total	<u>7,227,920.59</u>

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

Profit for the reporting period	Weighted average return on net assets ratio (%)	Earnings per share	
		Basic earnings per share (RMB/share)	Diluted earnings per share (RMB/share)
Net profits attributable to the ordinary shareholders of the Company	-1.25%	-0.0233	-0.0233
Net profits after deducting non-recurring profit or loss attributable to the ordinary shareholders of the Company	<u>-1.75%</u>	<u>-0.0325</u>	<u>-0.0325</u>

### (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.

# DISCUSSION AND ANALYSIS OF OPERATIONS

## REVIEW OF CHINA AUTOMOBILE INDUSTRY

From January to June 2019, production and sales volume of China automobile industry were 12,132,000 units and 12,323,000 units respectively, representing a decrease of 13.70% and 12.40% respectively as compared with last year. Production and sales of passenger cars were 9,978,000 units and 10,127,000 units respectively, representing a decrease of 15.80% and 14.00% respectively as compared with last year. Among passenger cars, sales volume of China-brand passenger cars was 3,998,000 units, representing a decrease of 21.70% as compared with last year. Production and sales volume of new energy cars were 614,000 units and 617,000 units respectively, representing an increase of 48.50% and 49.60% respectively as compared with last year. Production and sales of commercial vehicles were 2,154,000 units and 2,196,000 units respectively, representing a decrease of 2.30% and 4.10% respectively as compared with last year. Among commercial vehicles, production and sales volume of buses decreased by 10.90% and 6.90% respectively as compared with last year. Production and sales volume of trucks decreased by 1.30% and 3.80% respectively as compared with last year. The top ten automaker groups in China sold 10,997,000 units of automobiles, representing a decrease of 12.10% as compared with last year, and their sales represented 89.20% of the total sales of the automobile, representing an increase of 0.3 percentage point as compared with last year.

## ANALYSIS OF MAIN BUSINESS

### 1) Changes in major financial information

	January-June 2019	January-June 2018	Change
Operating revenue	450,513,067.17	591,578,777.31	-23.85%
Operating costs	372,841,463.94	498,024,626.88	-25.14%
Selling expenses	40,159,326.16	40,528,863.33	-0.91%
General and administrative expenses	32,697,905.63	35,508,447.02	-7.92%
Research and development expenses	27,853,907.88	32,309,297.22	-13.79%
Financial expenses	1,563,819.29	-331,266.86	572.07%
Other gains	6,648,542.97	7,071,722.79	-5.98%
Investment gains	658,689.06	2,436,590.84	-72.97%
Income tax	-772,061.75	348,756.77	-321.38%
Net cash flow from operating activities	-7,143,272.74	3,151,665.88	-326.65%
Net cash flow from investing activities	-31,958,462.04	-29,730,616.12	-7.49%
Net cash flow from financing activities	158,433,917.53	53,277,225.43	197.38%
Net increase of cash and cash equivalents	119,144,953.60	26,693,236.27	346.35%

During the Reporting Period, the overall performance of the China automobile industry was unsatisfactory and the sales of the China-brand passenger cars was significantly decreased, which caused negative effect to the sales of the products of the Company. The Company recorded an operating revenue of RMB450,513,067.17, representing a decrease of 23.85% as compared with last year.

During the Reporting Period, the gross profit of the Company's main business amounted to RMB72,499,170.48, representing a decrease of RMB15,645,828.84 as compared with last year. The gross profit margin of the Company's main business was 16.32% (corresponding period of last year: 15.05%). The reason for the increase of the gross profit margin of the Company is due to the improvement of the gross profit margin of the EPS products.

# DISCUSSION AND ANALYSIS OF OPERATIONS

During the Reporting Period, the Company's selling expenses amounted to RMB40,159,326.16, which was stable as compared with last year. The decrease in sales of the Company's products resulted in the decrease in the transportation costs correspondingly. However, the increase in the warranty fees offset the decrease in the transportation costs.

During the Reporting Period, the Company's general and administrative expenses amounted to RMB32,697,905.63, representing a decrease of 7.92% as compared with last year. It was mainly due to the granting of the social security allowances to some subsidiaries resulting in the decrease in staff costs and the decrease in service fees of the intermediaries.

During the Reporting Period, the Company's research and development expenses amounted to RMB27,853,907.88, representing a decrease of 13.79% as compared with last year. The research and development expenses accounted for 6.18% of the operating revenue, representing an increase as compared with last year. The Company's research and development expenses are mainly used on the technical research of automotive steering system's safety, intelligent, automation, energy saving and light weight, so as to maintain the Company's competitive edge in respect of sustainable development.

During the Reporting Period, the Company's research and development expenses were mainly invested in the core technical fields of motorised, intelligent, automation and high-end hydraulic steering.

During the Reporting Period, the Company's financial expenses amounted to RMB1,563,819.29 representing an increase of 572.07% as compared with last year, which was mainly due to the decrease in interest income.

During the Reporting Period, the Company's other gains amounted to RMB6,648,542.97, which was the government subsidies.

During the Reporting Period, the Company's investment gains amounted to RMB658,689.06, representing a decrease of 72.97% as compared with last year, which was mainly due to the decrease in the purchase of the short-term bank wealth management products resulting in the decrease in the gains correspondingly.

During the Reporting Period, the Company's income tax expenses amounted to RMB-772,061.75, representing a decrease of 321.38% as compared with last year, which was mainly due to the decrease in the accrual of the deferred income tax.

In view of the above, the Company recorded a net profit attributable to shareholders of the listed company of RMB-18,428,119.21 during the Reporting Period, representing a decrease of 214.66% as compared with last year.

During the Reporting Period, net cash flow from operating activities decreased by 326.65% as compared with last year, mainly due to the decrease in cash from sales receipts. Net cash flow from investing activities decreased by 7.49% as compared with last year. Net cash flow from financing activities increased by 197.38% as compared with last year, mainly due to the increase in bank borrowings. In view of the above, during the Reporting Period, net increase in cash and cash equivalents increased by 346.35% as compared with last year.

# DISCUSSION AND ANALYSIS OF OPERATIONS

## 2) Composition of operating revenue

	January-June 2019		January-June 2018		Change
	Amount	Proportion to operating revenue	Amount	Proportion to operating revenue	
Total operating revenue	450,513,067.17	100%	591,578,777.31	100%	-23.85%
<b>By industry</b>					
Manufacture of automotive components and parts	444,176,981.03	98.59%	585,564,716.30	98.98%	-24.15%
Other	6,336,086.14	1.41%	6,014,061.01	1.02%	5.35%
<b>By products</b>					
Steering system and parts	421,639,264.90	93.59%	556,073,620.88	94.00%	-24.18%
Parts and others	22,537,716.13	5.00%	29,491,095.42	4.98%	-23.58%
Others	6,336,086.14	1.41%	6,014,061.01	1.02%	5.35%

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

	Operating revenue	Operating costs	Gross margin	Change of operating revenue	Change of operating costs	Change of gross margin
<b>By industry</b>						
Manufacture of automotive components and parts	444,176,981.03	371,677,810.55	16.32%	-24.15%	-25.28%	1.27%
<b>By products</b>						
Steering system and parts	421,639,264.90	351,372,336.34	16.67%	-24.18%	-25.69%	1.71%

## ANALYSIS OF ASSETS AND LIABILITIES

### 1) Significant changes in composition of assets

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

	30 June 2019		31 December 2018		Change
	Amount	Proportion to total assets	Amount	Proportion to total assets	
Cash on hand and at bank	253,603,400.11	11.99%	129,531,349.92	6.33%	5.66%
Notes receivable	136,214,870.54	6.44%	142,065,764.04	6.95%	-0.51%
Accounts receivable	439,478,837.71	20.79%	468,614,553.04	22.91%	-2.12%
Inventories	285,138,452.84	13.49%	296,617,482.37	14.50%	-1.01%
Fixed assets	641,794,339.03	30.36%	648,472,200.05	31.71%	-1.35%
Construction in progress	120,659,054.98	5.71%	101,847,457.97	4.98%	0.73%
Short-term borrowings	180,000,000.00	8.51%	20,000,000.00	0.98%	7.53%
Accounts payable	287,559,714.22	13.60%	308,232,664.17	15.07%	-1.47%

# DISCUSSION AND ANALYSIS OF OPERATIONS

## 2) Assets and liabilities measured at fair value

Item	Amount at the beginning of the period	Gain/loss on changes in fair value for the Period	Cumulative changes in fair value recorded in equity	Impairment loss for the Period
Financial assets				
Bank wealth management products	60,000,000.00			
Total	60,000,000.00			

Item	Amount purchased for the period	Amount sold for the period	Amount at the end of the period
Financial assets			
Bank wealth management products	70,000,000.00	100,000,000.00	30,000,000.00
Total	70,000,000.00	100,000,000.00	30,000,000.00

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

### Assets with restrictions in ownership or use rights

Item	Carrying amount at the end of the period	Reason for restriction
Cash on hand and at bank	14,165,261.54	Security deposits of the notes pool
Notes receivable	28,361,974.13	Pledge of the notes pool
Fixed assets	4,121,850.34	Borrowing credit mortgage
Intangible assets	3,150,470.63	Borrowing credit mortgage
Total	49,799,556.64	

## FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At the end of the Reporting Period, the amount of total loans and borrowings of the Company was RMB189,080,000.00 (31 December 2018: RMB29,080,000.00). Total loans and borrowings increased by RMB160,000,000.00 when compared with the beginning of the year, mainly due to the increase of 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 2018: RMB280,000.00).

The Company issued 38.2 million RMB ordinary shares (A Shares) by way of non-public issue in 2014 at issue price of RMB18.46 per share, which raised a gross proceeds of RMB705,172,000.00 and a net proceeds of RMB658,162,877.04 after deducting the related costs. On 11 December 2014, the proceeds were credited into the regulatory proceeds account of the Company. The amount of the proceeds actually utilized by the Company between January and June of 2019 was RMB47,746,044.84, and RMB160,000,000.00 was used for temporary supplement of working capital. As at 30 June 2019, balance of proceeds amounted to RMB111,971,836.81, which included the accumulated amount of interests received from bank deposits and net gains from short-term bank wealth management products less bank handling fees and others.



# DISCUSSION AND ANALYSIS OF OPERATIONS

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. At the end of the Reporting Period, the Company's gearing ratio was 4.55% (31 December 2018: -6.52%).

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

## MATERIAL ACQUISITION AND DISPOSAL

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

## FOREIGN CURRENCY EXPOSURE

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

## CONTINGENT LIABILITIES

As at the end of the Reporting Period, the Group had no material contingent liabilities.

## OUTLOOK

As affected by the unsatisfactory performance of the overall automobile industry, the Company's operation will still face greater pressure in the second half of the year of 2019. 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.**

### Forecast on the operating results between January and September 2019:

Net profit attributable to Shareholders of the listed issuer between January and September 2019 (ten thousands)	-3,000.00 to -2,000.00
Net profit attributable to Shareholders of the listed issuer between January and September 2018 (ten thousands)	-539.50
Illustrations on reasons attributable to the movements in results	The overall performance of automobile industry was unsatisfactory, the Company's operation faced greater pressure and the profitability of the Company decreased. The new technology and new products were in the initial stages and did not contribute profit.
The change of net profit attributable to shareholders of the listed issuer between July and September 2019 as compared with last year	Net profit attributable to Shareholders of the listed issuer between July and September 2019 was expected to be RMB-11,571,900 to RMB-1,571,900. It was expected to be decreased by RMB12,033,400 to RMB2,033,400 as compared with last year.

# DISCUSSION AND ANALYSIS OF OPERATIONS

## 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 realised 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 customised 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.

## PLEDGE OF ASSETS

As at 30 June 2019, save for the assets with restricted ownership rights and rights in use as set out on page 72 of this report, the Group did not have any other material pledge on its assets.

## EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 1,463 employees as at 30 June 2019. 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.

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 as at 30 June 2019.

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.

## CAPITAL COMMITMENTS

As at 30 June 2019, apart from the commitments set out on page 87 of this report, the Group has no other major capital commitments.

## INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## CORPORATE GOVERNANCE

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

Under code provision A.1.8, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Board has not arranged a liability insurance cover 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 report.

## REMUNERATION COMMITTEE

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

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

## NOMINATION COMMITTEE

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

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

## AUDIT COMMITTEE

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

The Audit Committee has three members, namely Mr. Shum Shing Kei (Chairman of the Audit Committee) and Mr. Lin Yi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). As at the date of this report, the Audit Committee held three meetings to review and approve, among others, the annual audit report for the year 2018, self-assessment report on internal control for the year 2018, and the unaudited financial statements of first quarter and first half of 2019.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2019, 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.

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

Name of Directors	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, 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. As Mr. Zhang Shi Quan 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 51% interest in Beijing Jizhi.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, as at 30 June 2019, 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 30 June 2019, 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 Shareholders	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	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 (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 30 June 2019, 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.

## SHARE OPTION SCHEME

During the Reporting Period, the Company has not adopted any share option scheme.

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

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



“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
“Audit Committee”	audit committee of the Company
“Beijing Autonics”	Beijing Autonics Technology Co., Ltd., a wholly-owned subsidiary of the Company since 30 November 2016
“Beijing Jizhi”	Beijing Jizhi Wuxian Technology Limited, a subsidiary of Shibao Holding
“Board”	board of Directors of the Company
“China Accounting Standards for Business Enterprises” or “Accounting Standards for Business Enterprises” or “CASBE” 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”	浙江世寶股份有限公司 (Zhejiang Shibao Company Limited*), a joint stock limited company incorporated in the PRC
“Corporate Governance Code”	Corporate Governance Code and Corporate Governance Report, Appendix 14 to the Listing Rules
“Director(s)”	director(s) of the Company
“Erdos Sterling”	Erdos Sterling Steering System Co., Ltd., a wholly-owned subsidiary of Wuhu Sterling
“Group”	the Company and its subsidiaries
“H Share(s)”	ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued overseas and listed on the Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars
“Hangzhou New Shibao”	Hangzhou New Shibao Electric Power Steering Co., Ltd., a subsidiary controlled by the Company
“Hangzhou Shibao”	Hangzhou Shibao Auto Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Jilin Shibao”	Jilin Shibao Machinery Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules
“Nomination Committee”	nomination committee of the Company

\* For identification purposes only

# GLOSSARY

“PRC” or “China” or “Mainland China”	People’s Republic of China
“Remuneration Committee”	remuneration committee of the Company
“Reporting Period” or “the Period”	1 January 2019 to 30 June 2019
“RMB”	Renminbi, the lawful currency of the PRC for the time being
“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., the controlling shareholder of the Company
“Supervisor(s)”	supervisor(s) of the Company
“Wuhu Sterling”	Wuhu Sterling Steering System Co., Ltd., a subsidiary controlled by the Company