



浙江世寶股份有限公司

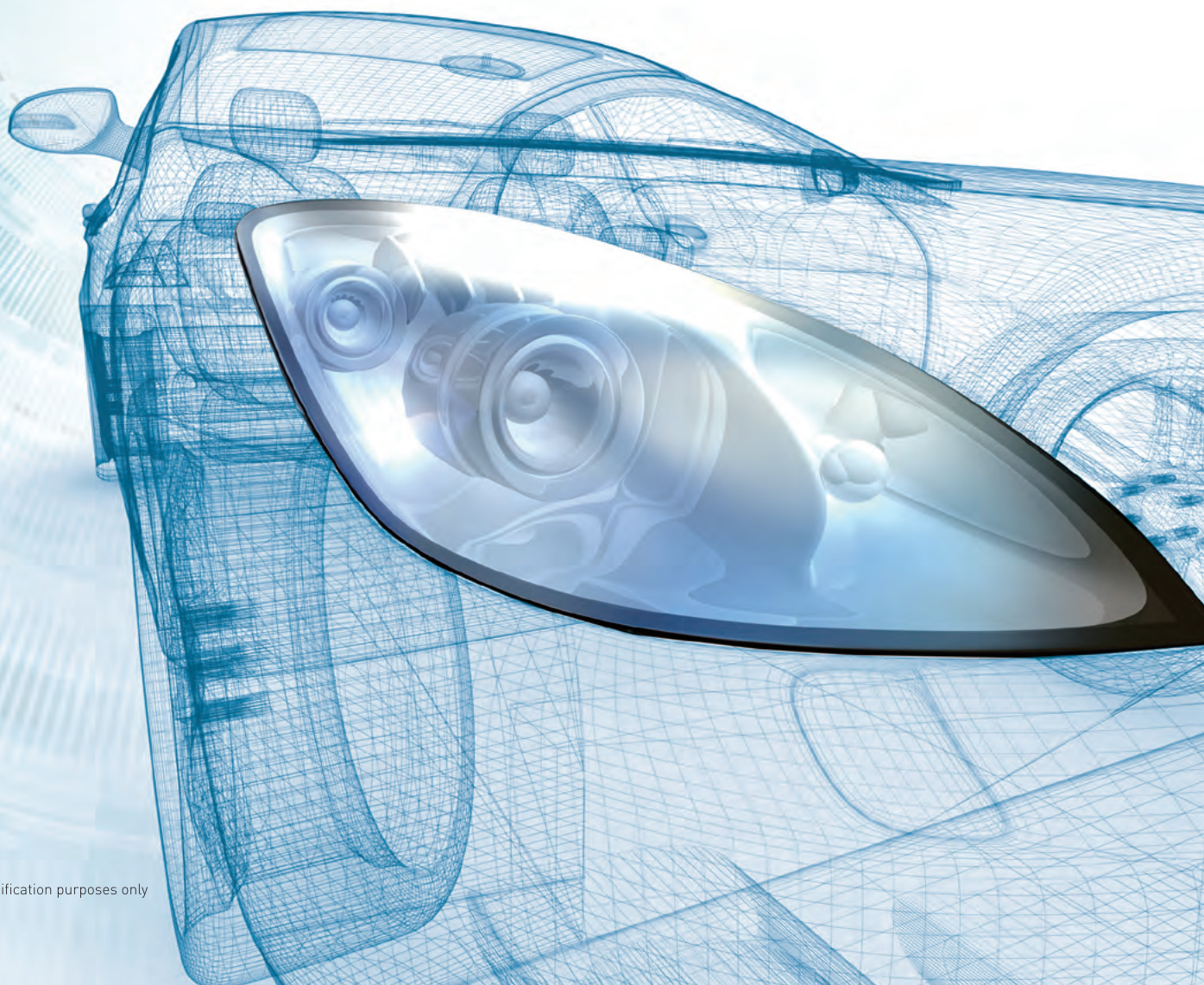
ZHEJIANG SHIBAO COMPANY LIMITED*

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

Stock Code: 1057

STEERING
the **F**UTURE

ANNUAL REPORT 2019



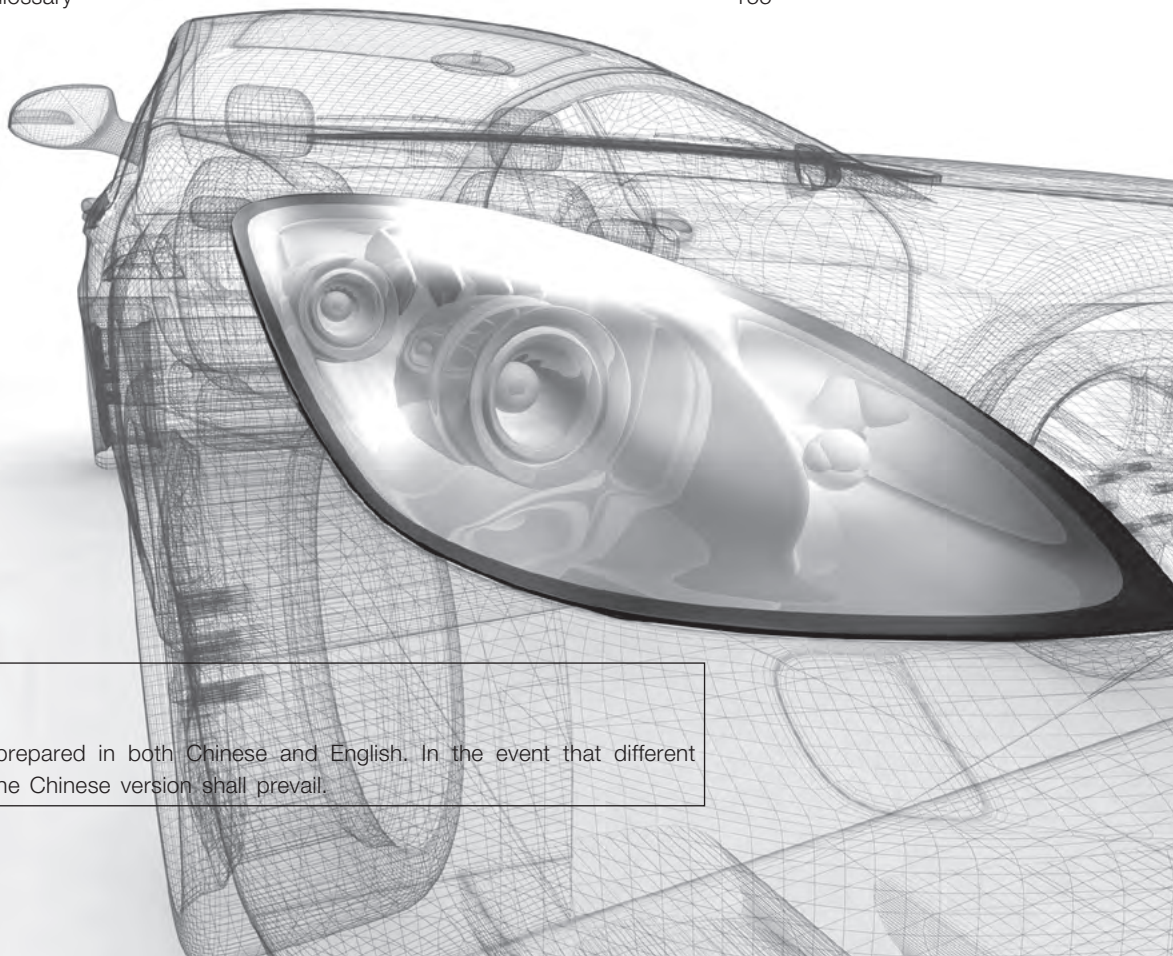
* For identification purposes only

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Important Notice:

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



CORPORATE INFORMATION

(English translation for reference only)

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

* For identification only

CORPORATE INFORMATION

(English translation for reference only)

Secretary of The Board

Ms. Liu Xiao Ping (劉曉平)

Company Secretary

Ms. Huen Lai Chun (禰麗珍)

Authorised Representatives

Ms. Zhang Lan Jun (張蘭君)

Ms. Huen Lai Chun (禰麗珍)

Registered Office

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

Principal Place of Business in Hong Kong

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

Legal Advisers

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

Auditors

Pan-China Certified Public Accountants
29/F., Tower B,
China Resources Building,
1366 Qianjiang Road, Hangzhou,
Zhejiang Province,
China

CORPORATE INFORMATION

(English translation for reference only)

Principal Bankers

Agricultural Bank of China, Yiwu Branch

– Fotang Sub-branch

85 Jianshe Road, Fotang,

Yiwu, Zhejiang Province, China

Bank of China Limited

– Banking Department of Siping Sub-branch

No. 488 Yingxiong Avenue,

Siping, Jilin Province, China

Bank of 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

CORPORATE INFORMATION

(English translation for reference only)

Huishang Bank Corporation Limited

– Wuhu Zhongshan South Road Sub-branch
Building 20, Haishang Chuanqi Garden,
Zhongshan South Road, Yijiang District,
Wuhu, China

Industrial and Commercial Bank of China Limited

– Hangzhou Economic and Technological Development Zone Sub-branch
No. 5, Sixth Avenue,
Hangzhou Economic and Technological Development Zone,
Hangzhou, Zhejiang Province, China

Industrial and Commercial Bank of China, Beijing Branch

– Zi Zhu Yuan Road Sub-branch
No. 10, Zhong Guan Cun South Road Jia,
Hai Dian District,
Beijing, China

Industrial and Commercial Bank of China, Siping Branch

– Zhongyang Dong Lu Sub-branch
141 Nanyijing Jie,
Siping, Jilin Province, China

Industrial and Commercial Bank of China, Yiwu Branch

– Yiwu Sub-branch
128 Huangyuan Road,
Yiwu, Zhejiang Province, China

Hua Xia Bank Co., Limited, Hangzhou branch

– Yiwu branch
No. 366 Bin Wang Lu,
Yiwu,
Zhejiang Province, China

CORPORATE INFORMATION

(English translation for reference only)

Hong Kong H Share Registrar and Transfer Office

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

Contact Information

Corporate communication/Investor relations

Ms. Liu Xiao Ping (劉曉平) *Secretary of the Board*
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(Post code: 310018)
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Company secretary services

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

Place of Listing

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

Website

www.zjshibao.com

1. COMPANY PROFILE

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

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

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

2. ANALYSIS ON CORE COMPETITIVENESS

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

- 1) **Leading R&D capacity:** the Company owns a significant number of patents of steering technology and software copyrights. Furthermore, in order to embrace the new opportunities and challenges on automotive component companies presented by the technology innovation in the automobile industry, the Company is leading its domestic peers in the implementation of automotive intelligent driving, including technical R&D, experiment, trial assembly, market cultivation and promotion relevant to automatic drive.
- 2) **State-of-the-art manufacturing processes:** refined production model and the IATF:16949 quality certification system are adopted throughout all of the major production bases of the Company with an aim to provide customized steering system products with the most reasonable price, latest technology and supreme quality for its customers.
- 3) **Loyal and professional team:** the Company has established a flexible personnel recruitment and incentive scheme to attract domestic and overseas professionals. Our key management and technicians are loyal and has extensive experiences in the industry.
- 4) **High corporate governance standard:** corporate governance and policy of the Company are established to meet listing requirements in the mainland China and Hong Kong with transparent financial reporting and risk control practices.

FIVE-YEAR FINANCIAL SUMMARY

(English translation for reference only)

A summary of the published results, assets and liabilities of the Group for the past five years ended 31 December 2019 are set out below. The relevant information were prepared on a consolidated basis and based on China Accounting Standards for Business Enterprises.

RESULTS

	For the year ended 31 December				
	2019 RMB0,000	2018 RMB0,000	2017 RMB0,000	2016 RMB0,000	2015 RMB0,000
Revenue	98,237	113,310	115,426	113,640	83,772
Total profit	-20,417	189	3,232	8,059	5,987
Net profit	-19,588	197	2,673	6,599	5,194
Minority interests	-1,917	-531	-592	250	-160
Net profits attributable to equity holders of the parent	-17,671	728	3,266	6,349	5,354
Basic earnings per share (RMB)	-0.2238	0.0092	0.0414	0.0804(Note)	0.17
Diluted earnings per share (RMB)	-0.2238	0.0092	0.0414	0.0804(Note)	0.17

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

ASSETS AND LIABILITIES

	As at 31 December				
	2019 RMB0,000	2018 RMB0,000	2017 RMB0,000	2016 RMB0,000	2015 RMB0,000
Non-current assets	98,414	92,104	86,017	79,511	69,321
Current assets	99,106	112,404	124,425	127,963	119,259
Current liabilities	62,542	48,925	55,439	52,661	39,108
Net current assets	36,564	63,478	68,986	75,302	80,151
Equity attributable to equity holders of the parent	130,183	147,855	147,458	147,351	144,258
Total liabilities and equity	197,520	204,508	210,442	207,474	188,580

CHAIRMAN'S STATEMENT

(English translation for reference only)

I would like to present on behalf of the Board the report of the audited results of the Group for the year ended 31 December 2019.

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

During the Reporting Period, due to the combined effects of several factors such as an overall unsatisfactory performance of domestic automotive industry, non-performance of relevant supply agreements by certain customers of the Company who encountered business deterioration and suspension of supply due to quality issue of some export products, the Company achieved a revenue of 982,370,362.06, representing a decrease of 13.30% as compared with last year. During the Reporting Period, the gross profit of the Company's main business was RMB127,405,462.04 representing a decrease of RMB57,153,627.19 as compared with last year. The gross profit margin of the Company's main business was 13.21% (2018: 16.62%). The decrease in gross profit margin of the Company was mainly due to the combined effect of a decrease in sales price of our products and an increase in the costs.

Due to the outbreak of COVID-19 since early 2020, strict travel restriction was imposed in most areas across China during later January to late March. Being affected by such negative factor, market demand for automobiles was dampened and the operation of the upstream and downstream enterprises of the automobile industry was impacted, leaving the Company under great operation pressure. Looking ahead, the Company will adopt a more prudent investment strategy, properly slow the construction pace of new production lines, adjust and improve its existing production lines, focus on its core business, and accelerate the research and development and pilot production of technologies and products in intelligent steering automobiles and unmanned automobiles, with an aim to maintain stable operation and make arrangements for future development.

Zhang Shi Quan

Chairman

Hangzhou, Zhejiang, the PRC
23 April 2020

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

REVIEW OF CHINA AUTOMOBILE INDUSTRY

In 2019, production and sales volume of China automobile industry were 25,721,000 units and 25,769,000 units respectively, representing a decrease of 7.5% and 8.20% respectively as compared with last year. Production and sales of passenger cars were 21,36,000 units and 21,444,000 units respectively, representing a decrease of 9.20% and 9.60% respectively as compared with last year. Among these, sales volume of China-brand passenger cars was 8,407,000 units, representing a decrease of 15.80% as compared with last year. Production and sales volume of new energy cars were 1,242,000 units and 1,206,000 units respectively, representing a decrease of 2.30% and 4.00% respectively as compared with last year. Production and sales of commercial vehicles were 4,360,000 units and 4,320,000 units respectively, representing an increase of 1.90% in production and a decrease of 1.10% in sales respectively as compared with last year. Among commercial vehicles, production and sales volume of buses decreased by 3.50% and 2.20% respectively as compared with last year; production volume of trucks increased by 2.60% and sales volume of trucks decreased by 0.90% respectively as compared with last year. The top ten automaker groups in China sold 23,294,000 units of automobiles, representing a decrease of 6.70% as compared with last year. Their sales represented 90.40% of the total sales of the automobile industry, representing an increase of 1.5 percentage point as compared with last year.

ANALYSIS OF MAIN BUSINESS

1) Overview

During the Reporting Period, due to the combined effect of several factors such as an overall unsatisfactory performance of the automobile industry, non-performance of relevant supply agreements by certain customers of the Company who encountered business deterioration and suspension of supply due to quality issue of some export products, the Company achieved a revenue of RMB982,370,362.06, representing a decrease of 13.30% as compared with last year.

During the Reporting Period, the gross profit of the Company's main business was RMB127,405,462.04, representing a decrease of RMB57,153,627.19 as compared with last year. The gross profit margin of the Company's main business was 13.21% (2018: 16.62%). The decrease in gross profit margin of the Company was mainly due to the combined effect of a decrease in sales price of our products and an increase in the costs.

During the Reporting Period, the Company's selling expenses was RMB124,329,014.21, representing an increase of 58.69% as compared with last year. The increase in selling expenses of the Company was mainly due to the increase in warranty expenses, including the costs for replacement and repair for some export products with defects which were borne by the Company.

During the Reporting Period, the Company's general and administrative expenses were RMB70,949,989.21, representing a decrease of 1.49% as compared with last year.

During the Reporting Period, the Company's research and development expenses amounted to RMB61,712,823.86, representing a decrease of 7.14% as compared with last year. However, there was a year-on-year increase in the proportion of research and development expenses to the revenue. 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 financial expenses was RMB3,017,313.82, representing an increase of 775.15% as compared with last year, which was mainly attributable to the increase in interest expenses due to an increase in bank borrowings as well as the decrease in deposit interest.

During the Reporting Period, the Company's other gains amounted to RMB15,214,440.01, which is government grants. The investment gains amounted to RMB1,209,913.87, representing a decrease of 71.70% as compared with last year, which was mainly due to the decrease in purchase of bank wealth management products, leading to the decrease in relevant gains. Credit impairment losses were RMB-51,813,901.94, (2018: RMB-50,396,000), mainly due to the provision for bad debts made for accounts receivable of customers such as Zotye Companies, Lifan Companies and Hubei Meiyang. Assets impairment losses was RMB-38,053,636.54, representing an increase of 1,009.41% as compared with last year, mainly due to the provision for price decline of inventories for customers such as Zotye Companies, Lifan Companies and Hubei Meiyang. Gains from disposal of assets were RMB531,164.21, representing a decrease of 95.54% as compared with last year, mainly due to no material amount of gains from disposal of assets recorded.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

During the Reporting Period, the Company's income tax expenses amounted to RMB-8,287,243.66, representing a decrease of 11,156.10% as compared with last year, mainly due to the increase in deductible temporary difference and a corresponding increase in provision for deferred income tax assets, leading to change in the deferred income tax for the period.

In view of the above, the Company recorded a net profit attributable to shareholders of the listed company of RMB-176,711,604.44 (2018: RMB7,278,368.34).

2) Revenue and Cost

(1) Composition of Revenue

Unit: RMB

	2019		2018		Change
	Amount	Proportion to revenue	Amount	Proportion to revenue	
Total Revenue	982,370,362.06	100%	1,133,097,729.85	100%	-13.30%
By industry					
Manufacture of automotive components and parts	964,554,512.66	98.19%	1,110,658,761.08	98.02%	-13.15%
Others	17,815,849.40	1.81%	22,438,968.77	1.98%	-20.60%
By products					
Steering system and parts	930,328,903.92	94.70%	1,068,970,565.77	94.34%	-12.97%
Parts and others	34,225,608.74	3.49%	41,688,195.31	3.68%	-17.90%
Other	17,815,849.40	1.81%	22,438,968.77	1.98%	-20.60%

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

Unit: RMB

	Revenue	Operating costs	Gross profit margin	Change of revenue over last year	Change of operating costs over last year	Change of gross profit margin
						over last year
By industry						
Manufacture of automotive components and part	964,554,512.66	837,149,050.62	13.21%	-13.15%	-9.60%	-3.41%
By products						
Steering system and parts	930,328,903.92	808,026,085.85	13.15%	-12.97%	-9.21%	-3.59%

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

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

Industry classification	Projects	Unit	2019	2018	Change
Manufacture of automotive components and parts	Sales volume	Unit/Piece	1,899,168	2,081,171	-8.75%
	Production quantity	Unit/Piece	1,874,522	2,063,234	-9.15%
	Inventory level	Unit/Piece	249,891	274,537	-8.98%

(4) Composition of operating costs Unit: RMB

Product classification	Item	2019		2018		Change
		Amount	Proportion to operating costs	Amount	Proportion to operating costs	
Steering system and parts	Raw materials	590,686,844.65	73.10%	685,077,275.22	76.97%	-13.78%
	Labour costs	46,532,081.43	5.76%	51,104,838.68	5.74%	-8.95%
	Manufacturing expenses	170,807,159.77	21.14%	153,835,936.91	17.29%	11.03%

3) Research and Development Investments

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

	2019	2018	Change
Number of R&D staff (person)	298	293	1.71%
Proportion of R&D staff	19.39%	18.65%	0.74%
Amount of R&D investments (Yuan)	61,712,823.86	66,456,611.17	-7.14%
Share of R&D investments in operating revenue	6.28%	5.87%	0.41%
Amount of capitalization of R&D investments (Yuan)	-	-	-
Share of capitalized R&D investment in R&D investment	-	-	-

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

4) Cash Flows

Unit: RMB

Unit	2019	2018	Change
Sub-total of cash inflow from operating activities	474,961,562.02	487,701,921.83	-2.61%
Sub-total of cash outflow from operating activities	435,160,813.97	500,551,565.13	-13.06%
Net cash flows from operating activities	39,800,748.05	-12,849,643.30	409.74%
Sub-total of cash inflow from investing activities	201,452,874.25	423,242,663.37	-52.40%
Sub-total of cash outflow from investing activities	364,255,215.93	469,055,631.50	-22.34%
Net cash flows from investing activities	-162,802,341.68	-45,812,968.13	-255.36%
Sub-total of cash inflow from financing activities	303,700,000	238,400,000.00	27.39%
Sub-total of cash outflow from financing activities	184,002,366.20	219,862,590.25	-16.31%
Net cash flows from financing activities	119,697,613.80	18,537,409.75	545.71%
Net increase in cash and cash equivalents	-3,179,703.18	-40,132,528.00	92.08%

During the Reporting Period, net cash flow from operating activities increased by 409.74% as compared with last year, mainly due to the decrease in the cash expenses of purchase of material and payment of remuneration benefit; net cash flow from investing activities decreased by 255.36% as compared with last year, mainly due to the decrease in cash inflows from redemption of bank wealth management products and the decrease in the large amount of disposal of assets; net cash flow from financing activities increased by 545.71% as compared with last year, mainly due to the increase in bank borrowings. In view of above, during the Reporting Period, net increase in cash and cash equivalents increased by 92.08% as compared with last year.

For the difference between net cash flows from operating activities and the net profit for the year during the Reporting Period, please refer to “Supplemental information on the statement of cash flows” set out on pages 118 and 119 in the annual report.

ANALYSIS OF ASSETS AND LIABILITIES

1) Significant changes in composition of assets

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

Unit: RMB

	2019		2018		Change
	Amount	Proportion to total assets	Amount	Proportion to total assets	
Change Cash on hand and at bank	130,823,115.52	6.62%	129,531,349.92	6.33%	0.29%
Accounts receivable	398,848,776.89	20.19%	468,614,553.04	22.91%	-2.72%
Financing receivables	141,483,082.75	7.16%	142,065,764.04	6.95%	0.21%
Inventories	216,838,013.54	10.98%	296,617,482.37	14.50%	-3.52%
Fixed assets	716,268,848.51	36.26%	648,472,200.05	31.71%	4.55%
Construction in progress	118,148,294.12	5.98%	101,847,457.97	4.98%	1.00%
Short-term loan	143,186,095.89	7.25%	20,027,912.50	0.98%	6.27%
Long-term loan	353,444,997.15	17.89%	308,232,664.17	15.07%	2.82%

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

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

Except for the “Assets with restrictions in ownership or use rights” set out on page 120 in the annual report, the Company did not have other restrictions regarding its assets.

3) Financial Resources and Capital Structure

At the end of the Reporting Period, the amount of total loans and borrowings was RMB151,800,000 (31 December 2018: RMB29,080,000.00). Total loans and borrowings increased by RMB122,720,000 when compared with the beginning of the year, mainly due to the increase in guaranteed loans. RMB8,800,000.00 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 RMB90,000,000.00 (31 December 2018: RMB280,000.00).

The Company issued 38,200,000 RMB ordinary shares (A Shares) by way of non-public issue in 2014 at issue price of RMB18.46 per share, which raised a gross proceeds of RMB705,172,000.00 and a net proceeds of RMB658,162,877.04 after deducting the related costs. On 11 December 2014, the proceeds were credited into the regulatory proceeds account of the Company. The amount of the proceeds actually utilized by the Company in 2019 was RMB139,206,297.69, and RMB170,000,000 was used for temporary supplement of working capital. As at 31 December 2019, balance of proceeds amounted to RMB11,128,335.54, which included the net accumulated amount of interests received from bank deposits and gains from short-term bank wealth management products less bank handling fees and others.

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. At the end of the Reporting Period, the Company's gearing ratio was 2.62% (2018: -6.45%).

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

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

ANALYSIS OF INVESTMENT

1) Measurement of the fair value of the financial assets

Unit: Yuan

Asset classification	Initial investment cost	The fair value on the change of the profit/loss during the year	Recognition of the interests on the change of the cumulative fair value	Amount of purchase during the Reporting Period	Amount of disposal during the Reporting Period
Bank wealth management products	60,000,000.00			90,000,000.00	150,000,000.00
Bank wealth management products				116,010,000.00	45,010,000.00
Total	60,000,000.00			206,010,000.00	195,010,000.00

Asset classification	Accumulative investment gains	Amount at the year end	Source of fund
Bank wealth management products	1,049,056.59	0.00	Fund raising
Bank wealth management products	160,857.28	71,000,000.00	Internal funding
Total	1,209,913.87	71,000,000.00	-

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

(1) General use of proceeds

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

The proceeds utilized by the Company amounted to RMB376,234,362.78 in prior years; bank deposit interest received in prior years, net of handling fees and others, amounted to RMB36,969,569.60; in 2019, the actual utilized proceeds amounted to RMB139,206,297.69; in 2019, bank deposit interest, net of bank handling fee and others, amounted to RMB1,436,549.37. The accumulated utilized proceeds amounted to RMB515,440,660.47. The accumulated bank deposit interest, net of bank handling fee and others, amounted to RMB38,406,118.97.

As at 31 December 2019, the temporary supplement to liquidity was RMB170,000,000.00. The balance of the designated proceeds account is RMB11,128,335.54 (including the accumulated bank deposit interest net of bank handling fee and others).

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

(2) Projects undertaken with the raised proceeds

unit: ten thousand

Undertaken investment project(s) and use of over-raised proceeds	Changes in project (Partial change included)	Total investment undertaken with raised proceeds		Invested amount during the Reporting Period	Invested amount as of the end of the period ⁽²⁾	Investment progress as of the end of the period ^{(3)=(2)/(1)}	Date of project getting ready for its intended use	Achieved results during the Reporting Period	Achieve the intended results or not	Significant changes in project feasibility
		Total investment after adjustment ⁽¹⁾								
Undertaken investment project(s)										
The increase of production of power automotive steering gears project	No	12,800	12,800	142.81	13,065.82	102.08%	2016.12.31	158.41	No	No
The precious casting and processing of automotive components project	Note 2	20,000	20,000	3,422.69	13,353.8.5	66.77%	Note 2	N/A	Note 1	Note 2
The research and development, examination and inspection and trial production centre of automotive steering gear system project	No	4,000	4,000	170.52	4,203.20	105.08%	2016.12.31	N/A	Note 1	No
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development	No	34,000	29,016.29	7,218.79	20,921.20	72.10%	2020.12.31	Note 1	Note 1	No
Sub-total of undertaken investment project(s)	—	70,800	65,816.29	10,954.81	51,544.07	—	—	—	—	—
Total	—	70,800	65,816.29	10,954.81	51,544.07	—	—	—	—	—

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

Condition and reason of lagging behind schedule or not achieving expected return	“The increase of production of power automotive steering gears project” relates to the 2012 initial public offering and the 2014 non-public issuance fund raising project was expected to achieve a net profit of RMB70.3524 million. Due to influences such as market change and technology upgrade, 2014 non-public issuance project was expected to achieve an adjusted net profit of RMB57.0051 million. The net profit of 2018 amounted to approximately RMB158.41 million, mainly due to the decrease in sales of automobiles, the worse-than-expected export business performance and the decrease in sales prices of products, which led to a drop in gross profit.
Illustration on the significant changes in project feasibility	Note 2
Amount, use and update on use of over-raised proceeds	Nil.
Change in location of fund-raising investment projects	Nil.
Adjustment on the implementation of fund-raising investment projects	Nil.
Preliminary capital and replacement of fund-raising investment projects	As of 31 December 2014, the Company had injected the preliminary capital of RMB49.7674 million from its own fund into the fund-raising investment projects. Upon review and approval in the 22nd meeting of the fourth session of the Board of the Company held on 6 February 2015, the Company used raised proceeds to replace it on 12 February 2015 and 23 March 2015 respectively.
Tentative application of idle proceeds as working capital	<p>On 14 June 2018, the 36th meeting of the fifth session of the Board of the Company considered and approved the Resolution on Utilisation of Idle Proceeds to Temporarily Supplement Working Capital (關於使用部分閒置募集資金暫時補充流動資金的議案), allowing the Company to use the idle proceeds of not exceeding RMB250 million (including RMB250 million) to tentatively apply as working capital for a term of 12 months commencing from the date of approval by the Board. The Company effectively utilised RMB230 million to tentatively apply as working capital. All of them were transferred back to the designated proceeds accounts on 11 June 2019.</p> <p>On 12 June 2019, the sixth session of the Board of the Company considered and approved the Resolution on Utilisation of Idle Proceeds to Temporarily Supplement Working Capital (關於使用部分閒置募集資金暫時補充流動資金的議案), allowing the Company to use the idle proceeds of not exceeding RMB230 million (including RMB230 million) to tentatively apply as working capital for a term of 12 months commencing from the date of approval by the Board. As of 31 December 2019, the balance of RMB170 million was yet to be transferred back to the designated proceeds account.</p>
Amount of and reason for the balance of proceeds from the implementation of project	Nil.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

Use and status of unutilised proceeds

As at 31 December 2019, the proceeds of RMB11.1283 million unutilised by the Company in the designated proceeds account and the amount of RMB17.00 million was used to temporarily replenish the working capital. The remaining balance proceeds of “precious casting and processing of automotive components project” was RMB8.04972 million, which was considered and approved as the supplement working capital of the Company permanently in the general meeting held on 13 January 2020. The remaining proceeds will continue to be used for the construction of projects for investment of proceeds.

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

Note:

- (1) Benefits of “The research and development, examination and inspection and trial production centre of automotive steering system project” and “The precious casting and processing of automotive components project” may not be individually assessed. “The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project” is not ready for the intended purpose.
- (2) Details of the “Change on proceeds utilized of investment project of fund-raising” are set out in the items (2) and (3) of this section (4).

(3) Change on proceeds utilized of investment project of fund-raising

On 31 October 2019, the sixth session of the Board of the Company, by way of the written resolution, considered and approved the Resolution on Derecognition of part of the proceeds and Utilisation of Idle Proceeds to Temporarily Supplement Working Capital. The Company originally planned to use the proceed of RMB20,000,000 from the 2014 Non-public Issuance of A Shares for the “precious casting and processing of automotive components project”. Due to the recent decline in the vehicle market and vehicle parts market as well as the actual results of the Company, with due consideration, the Company proposed to terminate one of the 2014 non-public issuance fund-raising project — “The precious casting and processing of automotive components project”. The remaining balance of the proceeds and the interests of the project will be used as the supplement working capital permanently for production and operation so as to enhance the use of proceed efficiently.

As at 31 December 2019, the remaining balance of the proceeds of RMB80,497,200 (included the net accumulated amount of interests received from bank deposits and gains from short-term bank wealth management products less bank handling fees and others, and the not matured temporarily supplement working capital of RMB80,000,000). The resolution was approved and passed in the general meeting of the Company held on 13 January 2020.

For details of extension of derecognition of part of the proceeds and utilisation of proceeds to supplement working capital permanently, it may refer to the Announcement of Extension of Projects for Investment of Certain Proceeds published by the Company on Securities Times and www.cninfo.com.cn (巨潮資訊網) on 1 November 2019 and 14 January 2020, the announcement of the sixth session of the Board meeting of the Company by way of the written resolution, the announcements of the first extraordinary general meeting of 2020, the first meeting of A Shares of 2020 and the first meeting of H Shares of 2020, and the announcements dated 1 November 2019 and 13 January 2020 and the circular dated 21 November 2019 published by the Company on the Hong Kong Stock Exchange’s website (www.hkexnews.hk).

Save as disclosed above, the Company did not have any change on the projects for investment of proceeds during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

ANALYSIS OF MAJOR CONTROLLED COMPANIES

Company name	Company type	Principal business	Registered capital
Hangzhou Shibao	Subsidiary/limited liability company	Manufacture of automotive components and parts	69,000,000
Jilin Shibao	Subsidiary/limited liability company	Manufacture of automotive components and parts	41,000,000
Hangzhou New Shibao	Subsidiary/limited liability company	Manufacture of automotive components and parts	60,000,000
Beijing Autonics	Subsidiary/limited liability company	Manufacture of automotive components and parts	10,000,000
Wuhu Sterling	Subsidiary/limited liability company	Manufacture of automotive components and parts	22,800,000

Company name	Total assets	Net assets	Revenue	Operating profit	Net profit
Hangzhou Shibao	700,213,101.71	268,682,375.61	708,891,673.00	-52,140,069.67	-45,826,166.68
Jilin Shibao	565,586,239.38	190,586,261.91	218,593,701.35	-30,995,783.84	-28,792,805.86
Hangzhou New Shibao	279,469,260.91	-45,545,729.96	260,416,727.13	-39,990,614.79	-39,957,382.99
Beijing Autonics	131,756,810.74	-20,145,381.77	75,166,698.23	-26,925,433.19	-26,624,903.15
Wuhu Sterling	87,809,439.66	-6,274,377.10	28,645,856.67	-35,981,138.04	-36,105,068.10

OUTLOOK INTO THE FUTURE DEVELOPMENT OF THE COMPANY

1) Industry landscape and trend

In 2019, the automobile industry has been enduring the great pressure due to the combined effects, such as China-United States trade friction causing change on the standard of environment and decline in the subsidies of new energy. In the early 2020, the outbreak of COVID-19, the automobile industry will have adverse effects in the first half year.

2) Development strategy of the Company

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

3) Business plan

In 2019, the overall performance of the automobile industry was unsatisfactory. The Company has made substantial provision for asset impairment due to its failure in collecting trade receivables as a result of non-performance of goods supply agreement by certain customers of the Company who encountered business deterioration. In addition, the Company was liable to bear the related costs for replacement and repair for some export products with defects. Due to the aforesaid factors, the Company recorded substantial loss in net profit for the year 2019.

Due to the outbreak of COVID-19 since early 2020, strict travel restriction was imposed in most areas across China during later January to late March. As at the date of this report, the impact arising from such travel restriction has not been fully eliminated. Being affected by such negative factors, market demand for automobiles was dampened and the operation of the upstream and downstream enterprises of the automobile industry was impacted, leaving the Company under great operation pressure.

Looking ahead, the Company will adopt a more prudent investment strategy, properly slow the construction pace of new production lines, adjust and improve its existing production lines, focus on its core business, and accelerate the research and development and pilot production of technologies and products in intelligent steering automobiles and unmanned automobiles, with an aim to maintain stable operation and make arrangements for future development.

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

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

4) Potential Risks

1. Risks relating to industry fluctuations

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

2. Risks relating to product quality

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

3. Risk relating to technical innovation

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

4. Risk relating to downward prices

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

5. Risk relating to price fluctuation of raw materials

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

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

6. Risk relating to higher proportion of accounts receivable

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

7. Risks relating to overseas market expansion

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

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

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

9. Risk relating to the stock market

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

MATERIAL ACQUISITION AND DISPOSAL

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

IMPORTANT EVENTS

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

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

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

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

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

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

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

As considered and approved at the meeting of the Board held on 22 March 2019 and the 2018 annual general meeting held on 25 June 2019, no cash dividend payment, bonus issue or conversion of capital reserve into share capital would be made.

As considered and approved at the meeting of the Board held on 23 April 2020, no cash dividend payment, bonus issue or conversion of capital reserve into share capital was proposed. The profit distribution plan is pending submission to the 2019 annual general meeting for consideration and approval.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

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

Year of distribution	Cash dividend amount (inclusive of tax)	Net profit attributable to the holders of the Company's ordinary shares in consolidated statements for the year of distribution	% of the net profit attributable to the holders of the Company's ordinary shares in consolidated statements
2019	0.00	-176,711,694.44	—
2018	0.00	7,278,368.34	—
2017	0.00	32,656,134.48	—

2. Profit distribution and conversion of capital reserve into share capital

During the year, the Company did not propose any cash dividend payment, bonus issue or conversion of capital reserve into share capital was proposed.

FOREIGN CURRENCY EXPOSURE

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

CAPITAL COMMITMENTS

As at 31 December 2019, apart from the commitments set out on page 142 in the annual report, the Group has no other major capital commitments.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group has no material contingent liabilities.

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 1,537 employees as at 31 December 2019 (2018: 1,571). For the Reporting Period, total staff salaries and welfares costs amounted to RMB150,268,886.76 (2018: RMB162,711,817.55). The Group provided substantial remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC. Details on the standard of determining the remuneration of directors, supervisors and senior management of the Company are set out on page 30 in the annual report.

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(English translation for reference only)

EXECUTIVE DIRECTORS

Mr. Zhang Bao Yi (張寶義), aged 47, is a vice Chairman and the General Manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree. Since 12 June 2004, he has been appointed as a vice Chairman and since 28 December 2017, he has been appointed as the General Manager of the Company. From 12 June 2004 to 27 December 2017, Mr. Zhang was the deputy general manager of the Company. Mr. Zhang was granted the title of "Labour Model of Yiwu City" (義烏市勞動模範) in 2004. Mr. Zhang's current term was effective from 29 June 2018 and is valid till 29 June 2021. Mr. Zhang is also the chairman of Hangzhou New Shibao and Beijing Autonics; a director of Wuhu Sterling; and the general manager of Hangzhou Shibao. The relationship between Mr. Zhang Bao Yi and the Directors and controlling shareholder of the Company is disclosed in the following paragraph about Mr. Zhang Shi Quan.

Mr. Tang Hao Han (湯浩瀚), aged 52, is a vice Chairman and deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a doctor's degree. Since 12 June 2004, he has been appointed as vice Chairman and deputy general manager of the Company. Mr. Tang was awarded the "Outstanding Entrepreneur of Jilin Province" (吉林省優秀企業家), "Labour Model of Jilin Province" (吉林省勞動模範), "National Outstanding Youth Entrepreneur Leader" (全國青年興業領頭人), "Outstanding Entrepreneur of National Privately-Owned Technological Enterprises" (全國優秀民營科技企業家) and "National Labour Day Medal" (國家「五一」勞動獎章). Mr. Tang's current term was effective from 29 June 2018 and is valid till 29 June 2021. Mr. Tang is also the chairman of Jilin Shibao. The relationship between Mr. Tang Hao Han and the Directors and controlling shareholder of the Company is disclosed in the following paragraph about Mr. Zhang Shi Quan.

Ms. Zhang Lan Jun (張蘭君), aged 45, is the finance Director of the Company. She is a Chinese national with no permanent residence abroad. She has a master's degree. Since 12 June 2004, she has been appointed as the finance Director of the Company. Ms. Zhang has over 10 years of experiences in finance and accounting. Ms. Zhang's current term was effective from 29 June 2018 and is valid till 29 June 2021. Ms. Zhang is also a finance manager of Hangzhou Shibao. The relationship between Ms. Zhang Lan Jun and the Directors and controlling shareholder of the Company is disclosed in the following paragraph about Mr. Zhang Shi Quan.

Ms. Liu Xiao Ping (劉曉平), aged 49, is a Director, a deputy general manager and the Board secretary of the Company. She is a Chinese national with no permanent residence abroad. She has a master's degree. Since 13 May 2011, she has been appointed as the Board secretary of the Company. Since 27 December 2013, she has been appointed as a deputy general manager of the Company. Since 29 June 2018, she has been appointed as a Director of the Company. Between 2006 and 2011, she was the director of securities and investment department of the Company. Her current term was effective from 29 June 2018 and is valid till 29 June 2021.

NON-EXECUTIVE DIRECTORS

Mr. Zhang Shi Quan (張世權), aged 70, is the Chairman of the Company. He is a Chinese national with no permanent residence abroad. He is a senior economist. Since 12 June 2004, he has been appointed as the Chairman of the Company. From 12 June 2004 to 27 December 2017, Mr. Zhang was the General Manager of the Company. Mr. Zhang was awarded the title of "China Outstanding Private Entrepreneurs" (中國優秀民營企業家). He was also awarded "Top Ten Distinguished Persons for the Second Year for China's Industrial Economy" (第二屆中國工業經濟年度十大傑出人物) granted by the Office for Election of Distinguished Persons for China's Industrial Economy (中國工業經濟年度人物評選辦公室) in 2006. Mr. Zhang's current term was effective from 29 June 2018 and is valid till 29 June 2021. Mr. Zhang is also a director of Shibao Holding; an executive director of Hangzhou Shibao and Siping Steering; the chairman of Wuhu Sterling; and a director of Jilin Shibao, Hangzhou New Shibao and Beijing Autonics. Mr. Zhang Shi Quan is the elder brother of Mr. Zhang Shi Zhong and is the father of Mr. Zhang Bao Yi and Ms. Zhang Lan Jun. Mr. Zhang Shi Quan is the father-in-law of Mr. Tang Hao Han. Shibao Holding is the controlling shareholder of the Company, of which Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Mr. Zhang Shi Zhong are the actual controllers.

Mr. Zhang Shi Zhong (張世忠), aged 59, is a Director of the Company. He is a Chinese national with no permanent residence abroad. Since 12 June 2004, he has been appointed as a Director of the Company. Mr. Zhang's current term was effective from 29 June 2018 and is valid till 29 June 2021. Mr. Zhang is also the chairman of Shibao Holding. The relationship between Mr. Zhang Shi Zhong and the Directors and controlling shareholder of the Company is disclosed in the foregoing paragraph about Mr. Zhang Shi Quan.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(English translation for reference only)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Guo Kong Hui (郭孔輝), aged 85, is an independent non-executive Director of the Company. He is a Chinese national with no permanent residence abroad, has a Bachelor's degree. Mr. Guo is a professor, PHD supervisor, academician of China Academy of Engineering (中國工程院院士). Currently, Mr. Guo is Honorary President of College of Automotive Engineering of Jilin University (吉林大學汽車工程學院名譽院長), Chairman of Technology Committee of Vehicle Dynamics Sub-Committee of National Automotive Standardization Technical Committee (全國汽車標準化技術委員會車輛動力學分會技術委員會主任委員), a specially invited member of Specialists Committee of China Machinery Industry Federation (中國機械工業聯合會專家委員會特邀委員), a specially invited director of China Mechanical Engineering Society (中國機械工程學會特邀理事), a member of National Auto Calculation Platform Engineering Strategic Guidance Team of China Ministry of Industry and Information Technology (中國工業和信息化部「國家汽車計算平台工程戰略指導組」成員), a honorary member of China Association for Science and Technology (中國科學技術協會榮譽委員), an advisor of Society of Automotive Engineers of China (中國汽車工程學會顧問) and an advisor of Academic Committee of State Key Laboratory of Automotive Simulation and Control (汽車動態模擬國家重點實驗室學術委員會顧問). Between May 2015 and May 2018, Mr. Guo was an independent director of Hualing Xingma Automobile (Group) Co., Ltd. (a company listed on Shanghai Stock Exchange). In 2013, Mr. Guo was selected as one of the "Ten Outstanding Contributed Person of the 60th Anniversary of China Automobile Industry" (中國汽車工業60周年10位卓越貢獻人物). Since 30 June 2014, Mr. Guo has been appointed as an independent non-executive Director of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021.

Mr. Shum Shing Kei (沈成基), aged 49, an independent non-executive Director of the Company, with Chinese nationality and being a permanent citizen of Hong Kong Special Administrative Region of the PRC, holds a postgraduate degree. Mr. Shum graduated from the Hong Kong Polytechnic University majored in accountancy and obtained a master's degree in financial management from University in London, the United Kingdom. Mr. Shum is a fellow member of the Hong Kong Institute of Certified Public Accountants. Since September 2010, Mr Shum has acted as a practicing partner of CC Alliance CPA & Co. Mr. Shum is currently an independent non-executive director of China Futex Holdings Limited, a company listed on GEM of Hong Kong Stock Exchange. Since 30 June 2015, Mr. Shum has been appointed as an independent non-executive Director of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021.

Mr. Lin Yi (林逸), aged 67, is an independent Director of the Company. He is a Chinese national with no permanent residence abroad. He has a doctor's degree. Mr. Lin served successively as a professor of Jilin University of Technology, a professor of Beijing Institute of Technology and the deputy Chief Engineer of Beijing Automotive Group Co., Ltd. He then retired from Beijing Automotive Group Co., Ltd. in March 2015. From March 2013 to May 2018, Mr. Lin acted as the manager of China Automobile (Beijing) Automobile Lightweight Technology Research Institute Company Limited and was responsible for the promotion of automobile lightweight technology. From April 2015 to April 2018, Mr. Lin served as an independent director of Zhuzhou Times New Material Technology Co., Ltd. (listed on Shanghai Stock Exchange). Since September 2017, Mr. Lin has been the supervisor of Beijing Automotive Engineering Society. Since 29 June 2018, Mr. Lin has been appointed as an independent non-executive Director of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021.

SUPERVISORS

Mr. Du Min (杜敏), aged 65, is the chairman of the Supervisory Committee of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree. Since 1 January 2019, he has been appointed as the financial controller of Jilin Shibao. Since 2002, Mr. Du was an assistant to general manager of Siping Steering Gear Co., Ltd which was merged by Jilin Shibao at the end of 2018. Since 1 June 2007, Mr. Du has been appointed as the chairman of the Supervisory Committee of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021. Mr. Du is also a supervisor of Siping Steering.

Mr. Yang Di Shan (楊迪山), aged 81, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is a senior engineer. Mr. Yang retired from FAW Group in 1998. Since 5 June 2009, Mr. Yang has been appointed as a Supervisor of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(English translation for reference only)

Mr. Wu Lang Ping (吳琅平), aged 57, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a college's degree. Since 6 March 2019, he has served as a general manager technical advisor of the Yiwu factory of the Company. Between 1993 and 2019, Mr. Wu was appointed as a manager of technical and process department of Hangzhou Shibao. Since 5 June 2009, he has been appointed as a Supervisor of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021.

Mr. Shen Song Sheng (沈松生), aged 82, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He retired from the Company in 2009. Since 12 June 2004, Mr. Shen has been appointed as a Supervisor of the Company. His current term was effective from 29 June 2018 and is valid till 29 June 2021.

Ms. Feng Yan (馮燕), aged 55, is a Supervisor of the Company. She is a Chinese national with no permanent residence abroad. She has a bachelor's degree and is an associate professor. She has served as a professor at the Zhejiang University of Finance and Economics since September 2000. Since 30 June 2015, Ms. Feng has been appointed as a Supervisor of the Company. Her current term was effective from 29 June 2018 and is valid till 29 June 2021.

SENIOR MANAGEMENT

Mr. Yu Zhong Chao (虞忠潮), aged 55, is a deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is an engineer. Since 11 August 2006, he has been appointed as a deputy general manager of the Company.

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

Ms. Huen Lai Chun (禰麗珍), aged 54, is the company secretary of the Company. Since May 2009, she has been appointed as the company secretary and authorised representative of the Company under the Listing Rules of Hong Kong Stock Exchange. Ms. Huen Lai Chun is a fellow of The Association of Chartered Certified Accountants, and an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Huen has over 10 years of professional experiences in company secretarial work, professional auditing, accounting and financial management.

REPORT OF THE DIRECTORS

The Board hereby presents the annual report and audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group has committed itself to the research and development of automotive steering gear products and mainly engaged in the develop, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The activities of its subsidiaries are set out on page 129 in the annual report. Analysis of operating segment is set out on page 143 in the annual report. Further discussion and analysis of businesses required under Schedule 5 to the Hong Kong Companies Ordinance, including the discussion on the major risks and uncertainties that the Group is subject to and the indication of likely development of the Group's business in the future, is set out in the "Management Discussion and Analysis" on pages 10 to 23 in the annual report. These discussions form part of this "Report of the Directors".

Important events after the Reporting Period

The Company has no important events after the Reporting Period.

Environmental policies and performance

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

Green production

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

In the course of production and operation of the Company, the main emissions are waste water, waste gas and waste materials. The Company established an emission management system and invested in the construction of environmental protection facilities. In 2019, the discharged sewage and waste gas all meet the requirements of the environmental protection department of the local government. Moreover, due consideration on consumption of water, power, raw materials and other natural resources had been given by the Company during the whole production process in various aspects including process design, equipment procurement, construction of facilities and field management etc., so that the consumption of non-recyclable and non-renewable resources could be minimized.

Improvement in production technology

Scientific and technological innovation is the eternal theme of the Company's development. The Company attaches great importance to the research and development of products. In order to guarantee the smooth progress of research and development of new products and technological innovation, the Company invested a lot in the research and development annually. In 2019, Company's annual research and development investment exceeds 6.28% of sales revenue. The Company has provincial-level technology centers, provincial-level research institutes and provincial post-doctoral workstations. It gathers a group of experts, outstanding technical talents and consultants in the field of automobile steering systems in China and is committed to the reserve and development of mainstream technology and smart steering system technology for existing automotive power steering systems. The Company recently launched electric power steering (EPS) system product, which is powered by rechargeable batteries and with dynamo as its power generating unit, is capable of operating separately from the automobile engine and its fuel consumption drawn from the engine can be close to none. With its electronic mode of control, the EPS system almost does not cause any pollution problem to the environment and achieves further decrease in fuel consumption.

The subsidiaries of the Company, Hangzhou Shibao, Hangzhou New Shibao and Jilin Shibao have obtained ISO14001 environmental management system certification.

REPORT OF THE DIRECTORS

Compliance with laws and regulations

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

Relationship with stakeholders

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

RESULTS

Results of the Group for the year ended 31 December 2019 are set out on page 54 in the annual report.

FIVE-YEAR FINANCIAL SUMMARY

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

PROFIT DISTRIBUTION

The 2019 profit distribution proposal was approved at the 6th meeting of the eleventh section of the Board held on 23 April March 2020, the Company will not to declare cash dividend, issue bonus shares or increase capital by transferring from capital reserve fund (2018: Nil). The profit distribution proposal is subject to approval at the annual general meeting of the Company.

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

SHARE CAPITAL

Details of changes of the Company's share capital during the Reporting Period are set out in note 5.(1)27 to the notes to the consolidated financial statements in the annual report.

EQUITY-LINKED AGREEMENTS

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

CONVERTIBLE DEBENTURES

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

RESERVES

Reserves of the Group and its changes during the Reporting Period prepared in accordance with China Accounting Standards for Business Enterprises are set out in the Consolidated Statement of Changes in Equity, and details of the relevant reserves are set out in notes 5.(1)28, 29 and 30 to the notes to the consolidated financial statements in the annual report.

DISTRIBUTABLE RESERVE

As at 31 December 2019, the Company's distributable reserve is RMB194,476,637.39 (2018: RMB371,188,331.83), and the relevant details are set out in note 5.(1)30 to the notes to the consolidated financial statements in the annual report.

PROPERTIES, PLANT AND EQUIPMENT

During the Reporting Period, details of changes of the Group's properties, plant and equipment are set out in note 5.(1)10 to the notes to the consolidated financial statements in the annual report.

BORROWINGS

Details of the Group's bank and other borrowings as at 31 December 2019 are set out in note 5.(1)16 and 25 to the notes to the consolidated financial statements in the annual report.

DIRECTORS AND SUPERVISORS

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

Executive Directors

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

Non-executive Directors

Mr. Zhang Shi Quan (張世權) (*Chairman*)
Mr. Zhang Shi Zhong (張世忠)

Independent Non-executive Directors

Mr. Guo Kong Hui (郭孔輝)
Mr. Shum Shing Kei (沈成基)
Mr. Lin Yi (林逸)

Supervisors

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

The terms of all current Directors and Supervisors were disclosed on page 37 in the "Composition of the Board and Board Practices" section of the Corporate Governance Report of this annual report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

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

REPORT OF THE DIRECTORS

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the remuneration of Directors, Supervisors and the five highest paid employees during the Reporting Period are set out on pages 139 to 141 in the annual report.

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

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

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

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

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2019 are set out in note 9.(2) to the notes to the financial statements on pages 137 to 141 in the annual report. These related party transactions are not those discloseable connected transactions governed by Chapter 14A of the Listing Rules.

The Company has no transactions which are subject to the connected transaction disclosure requirements under the Listing Rules of Hong Kong Stock Exchange for the year ended 31 December 2019. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

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

As at 31 December 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 Directors	Capacity	Number of A Shares	Approximate percentage of shareholding in same class of shares	Approximate percentage in the Company's total issued share capital
Mr. Zhang Shi Quan	Interest in a controlled corporation (Note)	341,786,098	59.66%	43.28%
	Beneficial owner	26,391,580	4.61%	3.34%

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

REPORT OF THE DIRECTORS

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

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

Save as disclosed above, as at 31 December 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 31 December 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 Shareholder	Capacity	Number and class of shares	Approximate percentage in the Company's total issued share capital	Approximate percentage of shareholding in same class of shares
Shibao Holding	Beneficial owner (Note)	341,786,098 A Shares	59.66%	43.28%
Mr. Zhang Shi Quan	Interest in a controlled corporation (Note)	341,786,098 A Shares	59.66%	43.28%
	Beneficial owner (Note)	26,391,580 A Shares	4.61%	3.34%

REPORT OF THE DIRECTORS

Note: The said Shares were included in the interests of Mr. Zhang Shi Quan in the Shares as disclosed under the “Disclosure of the Interests and Short positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations” section above. Therefore, Mr. Zhang is deemed to have the entire interests in 368,177,678 A Shares of the Company (including 341,786,098 A Shares owned by Shibao Holding and 26,391,580 A Share directly owned by himself). The above interests of Shibao Holding and Mr. Zhang were duplicated.

Save as disclosed above, as at 31 December 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.

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

For the year ended 31 December 2019, the Company has not implemented any share option scheme.

DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

COMPETING INTERESTS

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

EMPLOYEE AND TRAINING PLANS

On 31 December 2019, the Group had approximately 1,537 full-time employees, including production, sales, technical, financial, administrative and other employees.

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

The Company provided substantial remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC.

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

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, purchases attributable to the Group's five largest suppliers and revenue attributable to the five largest customers represented 23.61% and 62.53% of the Group's total purchases and total revenue respectively. In addition, the largest supplier and the largest customer represented 6.11% and 22.23% of the Group's total purchases and revenue respectively.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Corporate Governance Report adopted by the Company is set out on pages 36 to 45 in the annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

REPORT OF THE DIRECTORS

AUDITORS

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

The financial statements for the year ended 31 December 2019 have been audited by Pan-China Certified Public Accountants LLP.

By order of the Board

Zhang Shi Quan

Chairman

Hangzhou, Zhejiang, the PRC
23 April 2020

REPORT OF THE SUPERVISORY COMMITTEE

(English translation for reference only)

To all Shareholders:

For the year 2019, the Supervisory Committee carefully discharged its duties in strict compliance with the related provisions of the Company Law of the PRC, the Stock Listing Rules of Shenzhen Stock Exchange, the Listing Rules of Hong Kong Stock Exchange, the Articles of Association and the Organization and Procedural Rules and Regulations for the Meetings of the Supervisory Committee.

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

The Supervisory Committee is of the view that all members of the Board and other senior management of the Company have honestly and diligently discharged their duties, strived to maintain the interests of Shareholders and made great efforts to the operating results of the Company in 2019. No violation of laws and regulations of the PRC or the place of listing and the Articles of Association of the Company have been discovered during the discharge of their duties. The Supervisory Committee has no dissenting view over the supervisory matters during the Reporting Period, the Supervisory Committee is optimistic about the prospect of the Company.

Having reviewed the financial statements for the year ended 31 December 2019 prepared by Pan-China Certified Public Accountants LLP based on China Accounting Standards for Business Enterprises, the Supervisory Committee is of the view that the financial statements provide an objective, true and full view of the financial position and operating results of the Company.

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

By order of the Supervisory Committee

Du Min

Convenor of the Supervisory Committee

Hangzhou, Zhejiang, the PRC
23 April 2020

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interest of all of its stakeholders. The Company's commitment to the highest standards of corporate governance is driven by the Board who, led by the Chairman, assume overall responsibility for the governance of the Company, taking into account the interests of the Company's stakeholders, the development of its business, and the changing external environment. This report describes how the principles of the CG Code have applied during the year ended 31 December 2019 under different aspects.

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

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

MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

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

COMPOSITION OF THE BOARD AND BOARD PRACTICES

The Board comprises nine Directors, of which four are executive Directors, two are non-executive Directors and three are independent non-executive Directors. The Board holds regular board meetings at least four times each year. During the Reporting Period, the Board held five meetings in total.

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

	Attendance of meetings					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment and Strategy Committee	General Meeting
Number of meetings	5	5	1	1	1	1
Executive Directors						
Mr. Zhang Bao Yi	5/5				1/1	1/1
Mr. Tang Hao Han	5/5				1/1	1/0
Ms. Zhang Lan Jun	5/5			1/1		1/1
Ms. Liu Xiao Ping	5/5					1/1
Non-executive Directors						
Mr. Zhang Shi Quan	5/5				1/1	1/1
Mr. Zhang Shi Zhong	5/5	5/5	1/1			1/0
Independent non-executive Directors						
Mr. Guo Kong Hui	5/5					1/0
Mr. Shum Shing Kei	5/5	5/5	1/1	1/1		1/0
Mr. Lin Yi	5/5	5/5	1/1	1/1		1/0

CORPORATE GOVERNANCE REPORT

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

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

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

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

Mr. Zhang Shi Zhong (a non-executive Director) is the younger brother of Mr. Zhang Shi Quan (Chairman and a non-executive Director). Mr. Zhang Bao Yi (an executive Director and general manager) is the son of Mr. Zhang Shi Quan. Ms. Zhang Lan Jun (an executive Director and Finance Director) is the daughter of Mr. Zhang Shi Quan. Mr. Tang Hao Han (an executive Director and deputy general manager) is the son-in-law of Mr. Zhang Shi Quan. Shibao Holding is the Controlling Shareholder of the Company, and Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Mr. Zhang Shi Zhong are the effective controllers of the Company, the relevant interests of which are disclosed on page 31 in the “Long positions in the registered capital of the ultimate holding company, Shibao Holdings, an associated corporation of the Company” section of the Report of Directors of this annual report. Saved as the above and disclosed in “Directors, Supervisors and Senior Management” section of this annual report, there is no other financial, business, family or material relationship between the members of the Board.

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

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

CHAIRMAN AND GENERAL MANAGER

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

CORPORATE GOVERNANCE REPORT

FUNCTIONS OF CORPORATE GOVERNANCE

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

	Attending Seminar/Briefing Session	Reading Information	Watching Online Training Video
Executive Directors:			
Mr. Zhang Bao Yi	✓	✓	✓
Mr. Tang Hao Han	✓	✓	✓
Ms. Zhang Lan Jun	✓	✓	✓
Ms. Liu Xiao Ping	✓	✓	✓
Non-executive Directors:			
Mr. Zhang Shi Quan	✓	✓	✓
Mr. Zhang Shi Zhong	✓	✓	✓
Independent non-executive Directors:			
Mr. Guo Kong Hui	✓	✓	✓
Mr. Shum Shing Kei	✓	✓	✓
Mr. Lin Yi	✓	✓	✓

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

The internal audit department was set up by the Company in 2007. Our internal audit department had conducted quarterly reviews on the internal control of the Group throughout 2019 and submitted quarterly reports on internal audit. The reviews cover all the material aspects of monitoring, including financial control, operation control, compliance control and risk management functions, and the adequacy of resources, qualifications and experience of staff of the Company’s accounting and financial reporting function, and their training programmes and budget.

In addition, the Company engaged Pan-China Certified Public Accountants LLP to be the Company’s internal control auditor during the Reporting Period. Pan-China Certified Public Accountants LLP is of the view that the Company has maintained effective internal control of financial report in all material aspects as of 31 December 2019 in accordance with the Basic Standards for Internal Control of Companies and relevant regulations.

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

HANDLING OF INSIDE INFORMATION

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

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

REMUNERATION COMMITTEE

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

The Remuneration Committee consists of three members, namely Mr. Shum Shing Kei (Chairman of the Remuneration Committee) and Mr. Lin Yi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). During the Reporting Period, the Remuneration Committee held one meeting to consider and approve the proposal the remuneration of Directors, Supervisors and senior management for the year 2019 of the Company, and submit proposals to the Board. Records of attendance of each member of the committee are set out on page 36 under "Composition of the Board and Board Practices" section of this annual report.

NOMINATION COMMITTEE

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

The Nomination Committee consists of three members, namely Mr. Lin Yi (Chairman of the Nomination Committee) and Mr. Shum Shing Kei (both are independent non-executive Directors), and Ms. Zhang Lan Jun (executive Director). During the Reporting Period, the Nomination Committee held one meeting to consider and approve the proposal on the candidate list for the election of the new session of the Board, the structure, size and composition of the Board, amendments to the Board diversity policy and amendments to the measurable objectives of the Board diversity policy. Records of attendance of each member of the committee are set out on page 36 under "Composition of the Board and Board Practices" section of this annual report.

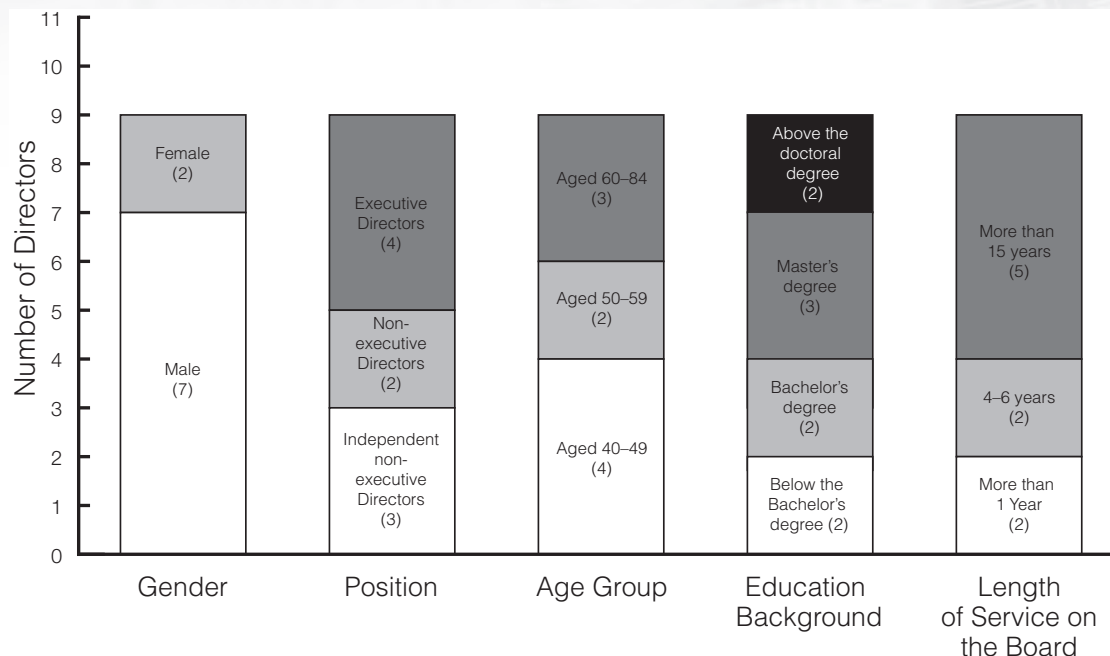
BOARD DIVERSITY POLICY

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

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

CORPORATE GOVERNANCE REPORT

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



MEASURABLE OBJECTIVES OF THE BOARD DIVERSITY POLICY

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

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

During the year ended 31 December 2019, the Board achieved the measurable objectives of the Board diversity policy.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

The Audit Committee has three members, namely Mr. Shum Shing Kei (Chairman of the Audit Committee) and Mr. Lin Yi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). During the Reporting Period, the Audit Committee held five meetings to review and approve, among others, the annual audit report for the year 2018, self-assessment report on internal control for the year 2018, and the unaudited financial statements of first quarter, first half and third quarter of 2019, the internal audit report and internal audit working plan. Also, the Audit Committee reviewed and approved the resolution on the re-appointment of Pan-China Certified Public Accountants LLP as the auditors of the Company for the year 2019, and submitted to the Board for review. Records of attendance of each member of the committee are set out on page 36 under “Composition of the Board and Board Practices” section of this annual report.

The Company’s annual audit report for the year ended 31 December 2019 has been reviewed by the Audit Committee.

SUPERVISORY COMMITTEE

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

INVESTMENT & STRATEGY COMMITTEE

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

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

REMUNERATION OF THE AUDITORS

For the year ended 31 December 2019, remuneration received by Pan-China Certified Public Accountants LLP, the (Chairman of the Board) auditors of the Company, in respect of their audit services and non-audit services are as follows:

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

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company engages an external service provider as its company secretary. Ms. Liu Xiao Ping, an executive Director and the Board Secretary of the Company, is a contact person of the external service provider. The biographies of the Company Secretary and the Board Secretary of the Company are set out on page 26 in the “Directors, Supervisors and Senior Management” section of this annual report. During the Reporting Period, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

RESPONSIBILITY OF DIRECTORS AND AUDITORS ON THE ACCOUNTS

The Board confirms its responsibilities on the preparation of the Group’s financial statements. The Directors shall ensure that the Group’s financial statements have been prepared in accordance with the statutory requirements and the applicable accounting standards. Statements of the Company’s auditors in respect of their reporting responsibilities on the Group’s financial statements are set out on pages 49 and 50 in the Auditors’ Report in the annual report.

SHAREHOLDERS’ RIGHTS

Procedures of convening general meetings by Shareholders

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

Procedures of sending enquiries to the Board

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

Procedures of raising proposal in the general meeting

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

CORPORATE GOVERNANCE REPORT

ARTICLES OF ASSOCIATION

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

RELATIONSHIP WITH SHAREHOLDERS

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

RELATIONSHIP WITH INVESTORS

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

AUDITORS' REPORT

(English translation for reference only)



Type of audit opinions:	Standard unqualified audit opinions
Date of signing of auditors' report:	23 April 2020
Name of auditors:	Pan-China Certified Public Accountants LLP
Auditors report file number:	Pan-China Audit [2020] No. 3288
Names of the CPAs:	Yu Jianan, Bei Lihui

TO THE SHAREHOLDERS OF ZHEJIANG SHIBAO COMPANY LIMITED

1. OPINION

We have audited the accompanying financial statements of Zhejiang Shibao Company Limited (hereinafter "Zhejiang Shibao Company"), which comprise the consolidated and parent company balance sheet as at 31 December 2019, the consolidated and parent company income statements, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity for the year then ended, and the notes to the financial statements.

In our opinion, the attached financial statements present fairly, in all material aspects, the consolidated and parent company's financial position of Zhejiang Shibao Company as at 31 December 2019 and the consolidated and parent company's financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

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

3. KEY AUDIT MATTERS

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

(1) Impairment of accounts receivable

1. Description of the matter

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

As of 31 December 2019, the balance of the accounts receivable of Zhejiang Shibao Company, the bad debt provision for them and their carrying amount were RMB455,864,601.62, RMB57,015,824.73 and RMB398,848,776.89 respectively.

AUDITORS' REPORT

(English translation for reference only)

The management of Zhejiang Shibao Company (hereinafter referred to as the "Management") made impairment provisions in an amount equal to the lifetime expected credit loss (ECL) by reference to the individual credit risk characteristics of receivables, either individually or collectively. For accounts receivable for which the ECLs are measured on an individual basis, the Management determined the bad debt provisions to be made for these receivables based on their estimates on the future cash flow expected to be received after taking into consideration of the reasonable and supportable information regarding past events, current conditions and expectation of future economic conditions. For accounts receivable for which the ECLs are measured on a collective basis, the Management categorized the receivables into various groups based on the ageing of the accounts and other basis, and adjustments were made with reference to the historical credit loss experience and taking into consideration of forward-looking estimates. The table of the aging of the accounts receivable and the lifetime expected credit losses was prepared for determination of bad debt provisions.

We identified the impairment of accounts receivable as a key audit matter due to the significant amount of the accounts receivable and the involvement of significant judgment by the Management in determining the impairment of accounts receivable.

2. *Audit response*

With regard to impairment of accounts receivable, our audit procedures mainly include:

- (1) We sought to understand the key internal control system in relation to the impairment of accounts receivable, assessed the design of these control to determine whether such control measures have been implemented and tested the effectiveness of such relevant internal control;
- (2) We checked the subsequent actual write-off and reversal of the bad debt provisions for accounts receivable made in the previous years, so as to evaluate the historical accuracy of the projections made by the Management;
- (3) We checked the relevant factors considered by the Management and the objective evidence used by the Management in assessing the credit risks of the accounts receivable, so as to evaluate the appropriateness of the credit risk characteristics of individual accounts receivable as identified by the Management;
- (4) For accounts receivable for which the ECLs are measured on an individual basis, we obtained and checked the cash flow projection made by the Management, so as to evaluate the reasonableness of the key assumptions and accuracy of data used in the projection, and obtained and checked to the external evidence;
- (5) For accounts receivable for which the ECLs are measured on a collective basis, we evaluated the reasonableness of the grouping made by the Management based on credit risk characteristics, evaluated the reasonableness of the table of the aging of the accounts receivable and the lifetime expected credit losses prepared by the Management based on historical credit loss experience and forward-looking estimates, and tested the accuracy and completeness of data (including the ageing, historical loss rate and migration rate of the accounts receivable, etc.) used by the Management and the accuracy of the calculation for bad debt provisions;
- (6) We checked the collection of the accounts receivable subsequent to the reporting period to evaluate the reasonableness of the bad debt provisions for the accounts receivable made by the Management;
- (7) We have checked whether information on the impairment of accounts receivable was presented in the financial statements.

AUDITORS' REPORT

(English translation for reference only)

(2) Net realizable value of inventory

1. Description of the matter

For relevant information disclosure, see Notes 3(10) and 5(1)7 to the financial statements.

As of 31 December 2019, the balance of inventory, inventory obsolescence provisions and the carrying amount of inventory of Zhejiang Shibao Company were RMB250,826,412.54, RMB33,988,399.00 and RMB216,838,013.54 respectively.

As at the balance sheet date, the inventories were stated at the lower of cost and net realizable value, and provision for inventory obsolescence was made based on the surplus of cost over net realizable value of inventories on an individual basis. After taking into consideration of the purpose of the inventories held by the Company, the Management determined the estimated sales price based on historical sales price, actual sales price, contracted sales price, market sales price of identical or similar products, future market development and other factors, and determined the net realizable value of the inventories at the estimated sales price less estimated costs to be incurred upon completion, costs necessary to make the sale and relevant taxes.

We identified the net realizable value of inventory as a key audit matter due to the significant amount of the inventories and the involvement of significant judgment by the Management in determining the net realizable value of the inventory.

2. Audit response

With regard to the net realizable value of inventory, our audit procedures mainly include:

- (1) We sought to understand the key internal control system in relation to the net realizable value of inventory, assessed the design of these control to determine whether such control measures have been implemented and tested the effectiveness of such relevant internal control;
- (2) We checked the projection on the net realizable value of inventory made by the Management in the previous years to the actual operation results, so as to evaluate the historical accuracy of the projections made by the Management;
- (3) We have checked the projections on the estimated sales prices of the inventories made by the Management on a sampling basis by comparing the estimated sales prices with the historical data, subsequent developments, market information, etc.;
- (4) We evaluated the reasonableness of the Management's estimates on the costs to be incurred upon completion, costs necessary to make the sale and relevant taxes;
- (5) We tested the accuracy of calculation of the net realizable value of the inventory made by the Management;
- (6) Through stock examination, we have checked if there were ageing or obsolete inventories or inventories with lower production volume, fluctuations in production costs or sales price, changes in technologies or market demands, so as to evaluate whether the net realizable value estimated by the Management is reasonable;
- (7) We have checked whether information on the net realizable value of the inventory was presented in the financial statements.

4. OTHER INFORMATION

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

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

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

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

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

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

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

Those charged with governance of Zhejiang Shibao Company (hereinafter "Those Charged with Governance") are responsible for overseeing Zhejiang Shibao Company's financial reporting process.

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

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

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

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

AUDITORS' REPORT

(English translation for reference only)

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

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

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

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

Pan-China Certified Public Accountants LLP

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

23 April 2020

CONSOLIDATED BALANCE SHEET

31 December 2019 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(1)	31 December 2019	31 December 2018
Current assets:			
Cash on hand and at bank	1	130,823,115.52	129,531,349.92
Financial assets held for trading	2	71,000,000.00	60,000,000.00
Accounts receivable	3	398,848,776.89	468,614,553.04
Financing receivables	4	141,483,082.75	142,065,764.04
Prepayments	5	6,563,922.61	5,961,331.19
Other receivables	6	6,624,835.27	7,223,954.38
Inventories	7	216,838,013.54	296,617,482.37
Other current assets	8	18,876,728.92	14,024,896.78
Total current assets		991,058,475.50	1,124,039,331.72
Non-current assets:			
Investment property	9	45,608,029.75	23,875,050.98
Fixed assets	10	716,268,848.51	648,472,200.05
Construction in progress	11	118,148,294.12	101,847,457.97
Intangible assets	12	83,246,762.75	90,633,988.60
Goodwill	13		4,694,482.34
Deferred income tax assets	14	11,644,197.00	3,795,739.02
Other non-current assets	15	9,221,484.68	47,719,083.17
Total non-current assets		984,137,616.81	921,038,002.13
Total assets		1,975,196,092.31	2,045,077,333.85
Current liabilities:			
Short-term borrowings	16	143,186,095.89	20,027,912.50
Notes payable	17	78,049,284.98	120,498,802.21
Accounts payable	18	353,444,997.15	308,232,664.17
Receipts in advance	19	5,180,624.33	2,090,618.17
Contract liabilities	20	3,296,944.39	3,902,211.90
Staff costs payable	21	12,942,278.97	13,581,085.61
Tax payable	22	2,615,274.29	1,905,954.69
Other payables	23	1,780,936.38	974,364.77
Other current liabilities	24	24,922,573.49	18,038,269.86
Total current liabilities		625,419,009.87	489,251,883.88

CONSOLIDATED BALANCE SHEET

31 December 2019 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(1)	31 December 2019	31 December 2018
Non-current liabilities:			
Long-term borrowings	25	8,800,000.00	9,962,136.12
Deferred income	26	43,582,481.56	52,234,573.03
Deferred income tax liabilities	14	2,756,325.71	3,106,579.85
Total non-current liabilities		55,138,807.27	65,303,289.00
Total liabilities		680,557,817.14	554,555,172.88
Equity:			
Share capital	27	789,644,637.00	789,644,637.00
Capital reserve	28	182,334,093.78	182,334,093.78
Surplus reserve	29	135,379,620.20	135,379,620.20
Retained earnings	30	194,476,637.39	371,188,331.83
Equity attributable to equity holders of the parent		1,301,834,988.37	1,478,546,682.81
Minority interests		-7,196,713.20	11,975,478.16
Total equity		1,294,638,275.17	1,490,522,160.97
Total liabilities and equity		1,975,196,092.31	2,045,077,333.85

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

BALANCE SHEET OF THE PARENT COMPANY

31 December 2019 | (RMB Yuan) | (English translation for reference only)

Item	Note 13.(1)	31 December 2019	31 December 2018
Current assets:			
Cash on hand and at bank		26,952,396.30	38,118,008.66
Financial assets held for trading		70,000,000.00	20,000,000.00
Accounts receivable	1	61,656,182.68	59,046,603.56
Financing receivables		100,000.00	1,840,000.00
Prepayments		1,379,388.83	1,325,090.40
Other receivables	2	375,049,048.10	373,291,338.80
Inventories		9,800,764.24	10,821,449.25
Other current assets		9,259,046.14	3,907,924.37
Total current assets		554,196,826.29	508,350,415.04
Non-current assets:			
Long-term accounts receivable		288,000,000.00	288,000,000.00
Long-term equity investments	3	185,159,214.87	185,159,214.87
Investment property		24,233,182.56	17,889,608.94
Fixed assets		115,934,448.50	77,182,953.94
Construction in progress		67,873,473.29	24,842,997.63
Intangible assets		29,999,762.48	34,646,333.12
Deferred income tax assets		287,091.12	97,276.77
Other non-current assets		52,500.00	14,091,246.43
Total non-current assets		711,539,672.82	641,909,631.70
Total Assets		1,265,736,499.11	1,150,260,046.74
Current liabilities:			
Short-term borrowings		143,186,095.89	20,027,912.50
Notes payable		5,860,000.00	2,450,000.00
Accounts payable		15,096,104.26	12,605,209.36
Receipts in advance		3,928,598.33	2,090,618.17
Contract liabilities		4,867.26	5,500.00
Staff cost payable		1,448,585.24	1,200,727.74
Tax payable		57,512.09	798,591.50
Other payables		701,819.56	306,054.96
Other current liabilities		880,632.74	880,000.00
Total current liabilities		171,164,215.37	40,364,664.23
Non-current liabilities:			
Total liabilities		171,164,215.37	40,364,664.23
Shareholders' Equity:			
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		42,783,944.86	58,107,043.63
Total Shareholders' Equity		1,094,572,283.74	1,109,895,382.51
Total Liabilities and Shareholders' Equity		1,265,736,499.11	1,150,260,046.74

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

CONSOLIDATED INCOME STATEMENT

For the year 2019 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(2)	2019	2018
1. Total Revenue	1	982,370,362.06	1,133,097,729.85
Include: Revenue	1	982,370,362.06	1,133,097,729.85
2. Total operating costs		1,114,125,442.28	1,163,687,299.96
Include: Operating costs	1	844,312,514.70	938,862,512.28
Business taxes and surcharges	2	9,803,786.48	8,448,316.41
Selling expenses	3	124,329,014.21	78,345,952.20
General and administrative expenses	4	70,949,989.21	72,020,750.48
Research and development expenses	5	61,712,823.86	66,456,611.17
Financial expenses	6	3,017,313.82	-446,912.58
Include: Interest expenses		4,407,765.65	1,830,859.94
Interest income		1,490,709.13	3,672,267.93
Add: Other gains	7	15,241,440.01	19,967,062.85
Investment gains ("-" for loss)	8	1,209,913.87	4,275,660.37
Credit impairment losses ("-" for loss)	9	-51,813,901.94	-503.96
Asset impairment losses ("-" for loss)	10	-38,053,636.54	-3,430,074.89
Gains from disposal of assets ("-" for loss)	11	531,164.21	11,896,367.95
3. Operating profit ("-" for loss)		-204,640,100.61	2,119,012.21
Add: Non-operating income	12	904,532.97	308,431.56
Less: Non-operating expenses	13	435,561.82	535,293.70
4. Total profit ("-" for total loss)		-204,171,129.46	1,892,150.07
Less: Income tax expenses	14	-8,287,243.66	-73,624.49
5. Net profit ("-" for net loss)		-195,883,885.80	1,965,774.56
(1) Classification by business continuity			
1. Net profit from continuing operations ("-" for net loss)		-195,883,885.80	1,965,774.56
(2) Classification by ownership			
1. Net profit attributable to equity holders of the parent		-176,711,694.44	7,278,368.34
2. Minority interests		-19,172,191.36	-5,312,593.78
6. Net other comprehensive income after tax			
7. Total comprehensive income		-195,883,885.80	1,965,774.56
Total comprehensive income attributable to equity holders of the parent		-176,711,694.44	7,278,368.34
Total comprehensive income attributable to minority shareholders		-19,172,191.36	-5,312,593.78
8. Earnings per share:			
(1) Basic earnings per share		-0.2238	0.0092
(2) Diluted earnings per share		-0.2238	0.0092

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

INCOME STATEMENT OF THE PARENT COMPANY

For the year 2019 | (RMB Yuan) | (English translation for reference only)

Item	Note 13.(2)	2019	2018
1. Revenue	1	44,850,593.41	41,767,591.54
Less: Operating costs	1	41,923,615.78	37,056,488.83
Business taxes and surcharges		1,222,753.91	248,383.45
Selling expenses		738,906.97	1,986,192.61
General and administrative expenses		14,023,787.79	14,522,633.82
Research and development expenses	2	3,851,874.55	4,012,357.57
Financial expenses		1,734,867.81	-3,714,045.27
Include: Interest expenses		2,234,202.94	1,000,491.68
Interest income		544,534.33	4,702,819.91
Add: Other gains		618,184.45	3,053,499.88
Investment gains (“-” for loss)	3	4,172,107.45	2,885,996.37
Credit impairment losses (“-” for loss)		-316.00	117.45
Asset impairment losses (“-” for loss)		-847,504.79	-96,126.14
Gains from disposal of assets (“-” for loss)		-800,483.51	11,813,620.08
2. Operating profit (“-” for loss)		-15,503,225.80	5,312,688.17
Add: Non-operating income		19,338.00	200.00
Less: Non-operating expenses		26,043.16	7,760.23
3. Total profit (“-” for total loss)		-15,509,930.96	5,305,127.94
Less: Income tax expenses		-186,832.19	632,564.61
4. Net profit (“-” for net loss)		-15,323,098.77	4,672,563.33
(1) Net profit from continuing operations (“-” for net loss)		-15,323,098.77	4,672,563.33
5. Net other comprehensive income after tax			
6. Total comprehensive income		-15,323,098.77	4,672,563.33
7. Earnings per share			

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

Item	Note 5.(3)	2019	2018
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		430,335,852.22	433,940,803.72
Return of taxes and levies		10,791,130.92	3,419,261.38
Cash received relating to other operating activities	1	33,834,578.88	50,341,856.73
Sub-total of cash inflow		474,961,562.02	487,701,921.83
Cash paid for goods and services		157,933,604.11	192,558,225.05
Cash paid to and on behalf of employees		149,808,330.14	163,196,334.24
Payment of taxes and levies		29,836,053.04	32,547,989.01
Cash paid relating to other operating activities	2	97,582,826.68	112,249,016.83
Sub-total of cash outflow		435,160,813.97	500,551,565.13
Net cash flows from operating activities		39,800,748.05	-12,849,643.30
2. Cash flows from investing activities:			
Cash received for investments		195,010,000.00	395,000,000.00
Cash received from investment gains		1,224,232.30	4,532,200.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		5,218,641.95	17,090,463.37
Cash received relating to other investing activities	3		6,620,000.00
Sub-total of cash inflow		201,452,874.25	423,242,663.37
Cash paid to acquire fixed assets, intangible assets and other long-term assets		158,245,215.93	140,955,631.50
Cash paid for investments		206,010,000.00	325,000,000.00
Cash paid relating to other investing activities	4		3,100,000.00
Sub-total of cash outflow		364,255,215.93	469,055,631.50
Net cash flows from investing activities		-162,802,341.68	-45,812,968.13
3. Cash flows from financing activities:			
Cash received from borrowings		303,700,000.00	238,400,000.00
Sub-total of cash inflow		303,700,000.00	238,400,000.00
Cash paid for debt repayments		180,972,600.00	218,400,000.00
Cash paid for distribution of dividends, profit or interest expenses		3,029,786.20	1,462,590.25
Sub-total of cash outflow		184,002,386.20	219,862,590.25
Net cash flows from financing activities		119,697,613.80	18,537,409.75
4. Effect of changes in foreign exchange rate on cash and cash equivalents		124,276.65	-7,326.32
5. Net increase in cash and cash equivalents		-3,179,703.18	-40,132,528.00
Add: opening balance of cash and cash equivalents		120,293,184.97	160,425,712.97
6. Closing balance of cash and cash equivalents		117,113,481.79	120,293,184.97

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

For the year 2019 | (RMB Yuan) | (English translation for reference only)

Item	2019	2018
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	39,520,789.29	32,459,604.78
Return of taxes and levies	6,200,795.39	
Cash received relating to other operating activities	137,399,342.60	69,175,835.15
Sub-total of cash inflow	183,120,927.28	101,635,439.93
Cash paid for goods and services	26,463,524.96	32,118,031.49
Cash paid to and on behalf of employees	13,210,357.99	15,278,442.81
Payment of taxes and levies	2,612,920.00	1,578,249.52
Cash paid relating to other operating activities	134,456,956.06	84,523,007.73
Sub-total of cash outflow	176,743,759.01	133,497,731.55
Net cash flows from operating activities	6,377,168.27	-31,862,291.62
2. Cash flows from investing activities:		
Cash received for investments	30,000,000.00	280,000,000.00
Cash received from investment gains	252,958.90	3,059,156.16
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	611,584.22	12,043,061.00
Cash received relating to other investing activities	80,000,000.00	86,620,000.00
Sub-total of cash inflow	110,864,543.12	381,722,217.16
Cash paid to acquire fixed assets, intangible assets and other long-term assets	89,454,960.01	75,625,204.03
Cash paid for investments	80,000,000.00	190,000,000.00
Cash paid relating to other investing activities	80,000,000.00	82,600,000.00
Sub-total of cash outflow	249,454,960.01	348,225,204.03
Net cash flows from investing activities	-138,590,416.89	33,497,013.13
3. Cash flows from financing activities:		
Cash received from borrowings	269,000,000.00	180,000,000.00
Sub-total of cash inflow	269,000,000.00	180,000,000.00
Cash paid for debt repayments	146,000,000.00	160,000,000.00
Cash paid for distribution of dividends, profit or interest expenses	2,975,363.74	947,043.88
Sub-total of cash outflow	148,975,363.74	160,947,043.88
Net cash flows from financing activities	120,024,636.26	19,052,956.12
4. Effect of changes in foreign exchange rate on cash and cash equivalents		
5. Net increase in cash and cash equivalents	-12,188,612.36	20,687,677.63
Add: opening balance of cash and cash equivalents	37,383,008.66	16,695,331.03
6. Closing balance of cash and cash equivalents	25,194,396.30	37,383,008.66

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2019 | (RMB Yuan) | (English translation for reference only)

Item	2019						Total shareholders' equity
	Attributable to equity holders of the parent					Minority interests	
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total		
1. Balance at the end of last year	789,644,637.00	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 ("-" for decrease)							
(1) Total comprehensive income				-176,711,694.44	-176,711,694.44	-19,172,191.36	-195,883,885.80
4. Balance at the end of year	<u>789,644,637.00</u>	<u>182,334,093.78</u>	<u>135,379,620.20</u>	<u>194,476,637.39</u>	<u>1,301,834,988.37</u>	<u>-7,196,713.20</u>	<u>1,294,638,275.17</u>

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

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the year 2019 | (RMB Yuan) | (English translation for reference only)

Item	2019				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 ("-" for decrease)					
(1) Total comprehensive income				-15,323,098.77	-15,323,098.77
				-15,323,098.77	-15,323,098.77
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>42,783,944.86</u>	<u>1,094,572,283.74</u>

Item	2018				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	
1. Balance at the end of last year	789,644,637.00	187,767,058.72	73,909,386.83	53,901,826.16	1,105,222,908.71
Add: Change in accounting policies				-89.53	-89.53
2. Balance at the beginning of year	789,644,637.00	187,767,058.72	73,909,386.83	53,901,736.63	1,105,222,819.18
3. Increase/decrease during the period ("-" for decrease)					
(1) Total comprehensive income			467,256.33	4,205,307.00	4,672,563.33
(2) Appropriation of profits			467,256.33	-467,256.33	4,672,563.33
1. Transfer to surplus reserve			467,256.33	-467,256.33	
4. Balance at the end of year	<u>789,644,637.00</u>	<u>187,767,058.72</u>	<u>74,376,643.16</u>	<u>58,107,043.63</u>	<u>1,109,895,382.51</u>

Zhang Shi Quan
Legal representative

Zhang Lan Jun
Chief Financial Officer

Li Gen Mei
Head of Finance Section

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

1. GENERAL

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

The Company operates in the automotive components manufacturing industry. The Company is principally engaged in the R&D, production and sales of automotive steering system and components. The business scope of the Company is: manufacture and sales of automotive components, sales of metal materials, electromechanical products and electronic products, sales of automobiles.

The financial statements have been approved for publication at the 11th meeting of the sixth session of the Board of the Company on 23 April 2020.

The Company has included 7 subsidiaries to the consolidated financial report, i.e. Hangzhou Shibao, Hangzhou New Shibao, Jilin Shibao, Beijing Autonics, Wuhu Sterling and Erdos Sterling. Details refer to the note 6 to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of Preparation

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

(2) Evaluation on ability of continuing operation

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

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Important Note: The Company has made specific accounting policies and accounting estimates regarding impairment on financial assets, depreciation of fixed assets, depreciation of right-of-use assets, amortisation of intangible asset and income recognition according to actual production and operation features.

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

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

(2) Accounting Year

The accounting year is from 1 January to 31 December.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(3) Operating Cycle

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

(4) Functional Currency

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

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

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

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

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

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

(6) Preparation Basis of Consolidated Financial Statements

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

(7) Recognition Standards for Cash and Cash Equivalents

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

(8) Foreign Currency Translation

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments

1. Classification of financial assets and financial liabilities

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

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

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

(1) Basis of recognition and initial measurement method of financial assets and financial liabilities

The Company recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument. Financial assets or financial liabilities are initially recognised at fair value. For financial assets or financial liabilities at FVTPL, the relevant transaction costs are directly recognised in current profit or loss; for other financial assets or financial liabilities, the relevant transaction costs are recognised in their initial recognition amount. However, accounts receivable initially recognised by the Company which do not contain a significant financing component, or financing components in a contract valid for less than one year which are not considered by the Company, are initially measured at transaction price as defined in ASBE 14 — Revenue.

(2) Subsequent measurement of financial assets

1) Financial assets at amortised cost

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

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

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

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

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

4) Financial assets at FVTPL

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments *(continued)*

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

(3) *Subsequent measurement of financial liabilities*

1) Financial liabilities at FVTPL

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

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

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

4) Financial liabilities at amortised cost

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

(4) *Derecognition of financial assets and liabilities*

1) Financial assets are derecognised when

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments *(continued)*

3. Recognition and measurement of transfer of financial assets

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments *(continued)*

5. Impairment on financial assets

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

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

The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Company at the original effective interest rate, that is, the present value of all cash shortages. Among them, purchased or originated credit-impaired financial assets shall be discounted at the adjusted effective interest rate of the financial assets.

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

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

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

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

Whether there has been a significant increase in the credit risk on a financial instrument since initial recognition is determined, using available, reasonable and supportable information including forward-looking information, and through comparing the risk of default on the financial instrument at the balance sheet date to that at the date of initial recognition.

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.

The Company assesses the expected credit risk and measures the expected credit losses on the basis of an individual financial instrument or a group of financial instruments. When conducting an assessment and measurement based on a group of financial instruments, the Company categorizes financial instruments into various groups based on common characteristics of credit risks.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(9) Financial Instruments *(continued)*

5. Impairment on financial assets *(continued)*

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

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 imprest receivable and etc.		
Other receivables — group of related dealings within the scope of combination	Related parties within the scope of combination (Note)	

(Note): it represents the related parties within the scope of combination.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(9) Financial Instruments (continued)

5. Impairment on financial assets (continued)

(3) Receivables which expected credit losses are measured on a collective basis

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.
Notes receivable — commercial acceptance bills	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.
Accounts receivable — grouping by age		
Accounts receivable — group of related dealings within the scope of combination	Related parties within the scope of combination (Note)	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.

(Note): it represents the related parties within the scope of combination.

6. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are presented separately from each other in the balance sheet and are not offset. However, financial assets and financial liabilities are offset and the net amount are presented in the balance sheet when both of the following conditions are satisfied: (1) the Company has a legal right to set off the recognized amounts and the legal right is currently enforceable; and (2) the Company intends either to settle on a net basis, or to realize the financial assets and settle the financial liabilities simultaneously.

When the transfer of financial assets does not satisfy the derecognition conditions, the Company shall not set off such transferred financial assets with the relevant liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(10) Inventories

1. Classifications of inventories

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

2. Cost of inventories transferred out

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

3. Basis for determining the net realisable value of inventories

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

4. Inventory system

The Company maintains a perpetual inventory system.

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

(1) Low-value consumables

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

(2) Packaging materials

Packaging materials are amortised in full when received for use.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(11) Contract Cost

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

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

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

(1) Initial measurement and subsequent measurement

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(13) Long-Term Equity Investments

1. Judgement on joint control and significant effects

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

2. Determination of investment cost

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

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

2. Determination of investment cost *(continued)*

- (3) A long-term equity investment acquired otherwise than through a business combination is initially recognised at the actual consideration paid if the investment is acquired by cash, or at the fair value of the equity securities issued if the investment is acquired by issuing equity securities. For those obtained through debt restructuring, the initial investment cost is recognized pursuant to ASBE 12 — Debt Restructuring. For those obtained through exchange of non-monetary assets, the initial investment cost is recognized pursuant to ASBE 7 — Exchange of Non-monetary Assets.

3. Subsequent measurement and recognition

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

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

(1) Separate financial statements

For equity interests disposed of, the difference between the carrying amount and the actual consideration obtained is recognized as profit or loss. For the remaining equity interests, those which are still entitled to a significant influence on the investee or perform joint control with other parties are accounted for using equity method. Those which do not control, jointly control or have a significant influence on the investee are accounted for pursuant to the relevant regulations of ASBE 22 — Recognition and Measurement of Financial Instruments.

(2) Consolidated financial statements

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

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

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

(14) Investment Property

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(15) Fixed Assets

1. Recognition of fixed assets

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

2. Depreciation of fixed assets

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

(16) Construction in Progress

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

(17) Borrowing Costs

1. Capitalization of borrowing costs

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

2. Timing of borrowing costs capitalization

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(17) Borrowing Costs *(continued)*

3. Capitalization rate and amount of borrowing costs

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

(18) Right-of-use assets

1. Recognition condition of right-of-use assets

The right-of-use assets are defined as the right to use the underlying assets in the lease term for the Company as a lessee. The Company recognizes right-of-use assets in relation to the lease as at the commencement date of the lease. Right-of-use assets are recognized when it is probable that economic benefits will flow to the Company and the costs can be measured reliably.

2. Initial measurement of right-of-use assets

Right-of-use assets are initially measured at cost, which consists of: (1) the amount of the initial measurement of the lease liability; (2) any lease payments made on or before the commencement date of the lease less any lease incentives received if any; (3) initial direct expenses incurred by the lessee; and (4) costs expected to be incurred by the lessee in dismantling and removing a leased asset, restoring the site on which it is located or restoring the leased assets to the condition required by the terms and conditions of the lease.

3. Subsequent measurement of right-of-use assets

- (1) The Company adopts the cost model for subsequent measurement of right-of-use assets.
- (2) Provision for depreciation is made on right-of-use assets by the Company. Right-of-use assets in which the Company is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated over the remaining useful life of the leased assets. Otherwise, right-of-use assets are depreciated over the shorter of the lease term and its remaining useful life. All right-of-use assets are depreciated using the straight-line method over their estimated useful lives.
- (3) The lease liability is remeasured to the present value of the lease payment when there is a change in the lease payment, and a corresponding adjustment is made to the carrying amount of the right-of-use assets. Where the carrying amount of the right-of-use asset has been reduced to zero while further reduction is required to be made to the carrying amount of the lease liability, the remaining amount is recorded in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(19) 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.

(20) Partial Long-Term Asset Impairment

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

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

(21) Long-term deferred expenses

Long-term deferred expenses are expenses that have been recognized but with amortization period over one year (excluding one year). They are recorded at their actual costs, and evenly amortized within its beneficiary period or stipulated period. If items of long-term deferred expenses fail to be beneficial to the following accounting periods, the residual values of such items are all included in profit or loss.

(22) Staff Costs

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(22) Staff Costs *(continued)*

2. Accounting treatment for short-term remuneration

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

3. Accounting treatment of post-employment benefits

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(22) Staff Costs *(continued)*

4. Accounting treatment of dismissal benefits

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

5. Accounting treatment of other long-term benefits

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

(23) 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.

(24) Revenue

1. Revenue recognition

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(24) Revenue *(continued)*

2. Revenue measurement

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

3. Methods of revenue recognition

Revenue recognition at a point in time

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(25) Government Grants

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

Government grants which shall be used for constructing or otherwise forming long-term assets as specified in government documents are classified as government grants related to assets. In the absence of specific requirements in government documents, the determination is made according to basic conditions for obtaining the grants; if constructing or otherwise forming long-term assets is treated as a basic condition, the grants are classified as government grants related to assets. Government grants relating to assets are offset against the carrying amount of such assets or recognised as deferred income. Government grants relating to assets recognised as deferred income are included in profit or loss on a reasonable and systematic basis over the useful lives of the relevant assets. Government grants measured at notional amount are directly recorded in profit or loss. For assets sold, transferred, disposed or damaged prior to the end of their useful lives, balance of unallocated deferred income is transferred to profit or loss for the period in which the disposal occurred.
3. Judgment basis and accounting methods on the government grants relating to revenue

Other than government grants pertinent to assets, other government grants are government grants pertinent to income. The Company classifies government grants that contain both assets-related and income-related portion or those that are difficult to distinguish as the ones related to income on an entire basis. Government grants relating to income and applied towards reimbursement of related costs or losses in subsequent periods are recognised as deferred income and taken to current profit or loss or offset the related costs for the period in which the related costs or losses are recognised. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognised in current profit or loss or offset the related costs.
4. Government grants related to the Company's daily operations are included in other income or offset against relevant expenses according to the economic nature of business. Government grants that are not related to the Company's daily operations are included in the non-operating income or expenses.

(26) Deferred Tax Assets and Deferred Tax Liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(27) Leases

1. Identification of leases

At the inception of a contract, the Company assesses if the contract is a lease, or contains a lease. A contract is a lease or contains a lease if a party of the contract transfers the right to control the use of one or more identified assets for a period of time in exchange for consideration. To determine if a contract has transferred the right to control the use of the identified assets for a period of time, the Company assesses if the customer in the contract has the right to obtain substantially all the economic benefits from use of the identified assets and the right to direct the use of the identified assets in the period of use.

2. Identification of individual leases

Where the contract contains several individual leases, the Company separates the contract into individual leases which are accounted for separately. The right to use an identified asset constitutes an individual lease under the contract if the following conditions are satisfied: (1) the lessee is able to benefit from use of the individual asset or through combination with other readily available resources; and (2) the asset is highly independent from and not connected with the other assets contained in the contract.

3. Accounting method for the Company as a lessee

As at the commencement date of the lease term, the Company identifies the leases with a lease term of 12 months or less and without purchase options as short-term leases, and the leases of individual leased assets with relatively low original value as low-value asset leases. Where the leased assets are sublet or expected to be sublet, the original leases are not identified as low-value asset leases.

For all short-term leases and low-value asset leases, the amount of lease payment is included in the relevant asset costs or profit or loss on a straight-line basis over the lease term.

Except for the elective practical expedients adopted for the short-term leases and low-value asset leases, the Company recognizes right-of-use assets and lease liabilities for the leases as at the commencement date of the lease term.

As at the commencement date of the leases, the Company recognizes lease liability at the present value of the outstanding lease payments. In calculating the present value of the lease payments, the Company uses the interest rate implicit in the leases or, if that rate cannot be readily determined, the incremental borrowing rate of the Company as the discount rate. The differences between the amount of lease payments and its present value are recognized as unrealized finance costs, for which interest expenses are calculated at the discount rate used to determine the present value of the lease payments over the lease term and are recorded in profit or loss. The variable lease payments not included in the measurement of the lease liability are charged to profit or loss in the period in which they are actually incurred.

After the commencement date of the lease term, when there is change in either the in-substance fixed payments, the amount expected to be payable under a residual value guarantee, the index or rate used to determine the amount of lease payments, the assessment results on the purchase options, extension options or termination options or the actual exercise of such options, the lease liability is remeasured to the present value of the revised lease payments.

4. Accounting method for the Company as a lessor

On the commencement date of the lease, leases that transfer substantially all the risks and rewards of ownership of the leased asset are classified as finance leases, while others are classified as operating leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(27) Leases *(continued)*

4. Accounting method for the Company as a lessor *(continued)*

(1) Operating leases

The Company recognizes the lease receivables as rental income on a straight-line basis over the lease term, and the initial direct costs are capitalized and allocated on the same basis as that for the recognition of rental income and are charged in profit or loss in instalment. The variable lease payments received by the Company that are associated with the operating lease and are not included in the lease receivables are credited in the profit or loss when incurred.

When an operating lease is modified, the Company accounts for it as a new lease from the modification date, and accounts for the advanced receipts or lease receivables as receipts of the new lease

(2) Finance leases

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases as at the commencement date of the lease (the aggregate sum of the unguaranteed residual values and the present value of the outstanding finance lease receivables as at the commencement date of the lease discounted using the interest rate implicit in the lease) and the relevant finance lease asset is derecognized. The Company calculates and recognizes the interest income at the interest rate implicit in the lease over the lease term.

The variable lease payments received by the Company that are not included in the measurement of net investment in the leases are included in the profit or loss when incurred.

5. Accounting method for lease modification

(1) Lease modification accounted for as a separate lease

When a lease is modified and both of the following conditions are met, the Company accounts for the modification as a separate lease: 1) the modification expands the scope of the lease by adding one or more leased assets; and 2) the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that standalone price to reflect the circumstances of the particular contract.

(2) Lease modification not accounted for as a separate lease

1) The Company as a lessee

As at the effective date of lease modification, the Company reassesses the lease term and discount the lease payments after the modification at the revised discount rate to remeasure the lease liability. In calculating the lease payment after the lease modification, the Company uses the discount rate for the remaining lease term implicit in the lease, or, if such rate cannot be readily determined, uses the incremental borrowing rate of the Company as at the effective date of the lease modification as the discount rate.

The effect of the aforesaid adjustments to the lease liability is accounted for as follows:

- ① Where the modification narrows the scope of the lease or shorten the lease term, the Company reduces the carrying amount of the right-of-use assets, and the gains or losses from the partial or entire termination of the lease are included in the profit or loss.
- ② For other lease modifications, the Company makes corresponding adjustments to the carrying amount of the right-of-use assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(27) Leases *(continued)*

5. Accounting method for lease modification *(continued)*

(2) *Lease modification not accounted for as a separate lease* *(continued)*

2) The Company as a lessor

In case where the lease would have been classified as an operating lease assuming the modification became effective at the commencement date of the lease, the Company accounts for it as a new lease from the effective date of the modification and the net investment in the lease prior to the effective date of the modification is taken as the carrying amount of the leased assets; In case where the lease would have been classified as a finance lease assuming the modification became effective at the commencement date of the lease, the Company accounts for the modification in accordance with the requirements regarding the modification or renegotiation of contracts under the Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments.

(28) 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.

(29) Other Significant Accounting Policies and Accounting Estimates

Recognition criteria for discontinued operation and its accounting treatment

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(30) 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 (26) 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 (9) 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 (10) to the financial statements, as at the balance sheet date, the Company's inventories are stated at the lower of cost and net realizable value, provision for inventory obsolescence will be made based on the surplus of cost over net realizable value of inventories on an individual basis; For inventories for direct sales, net realizable value is recognized at the estimated selling price of such inventories in the ordinary course of business, less estimated costs necessary to make the sale and relevant taxes; For inventories which require processing before sale, net realizable value is recognized at the estimated selling price of the finished goods produced in the ordinary course of business, less estimated costs to be incurred upon completion, costs necessary to make the sale and relevant taxes; As at the balance sheet date, for an item of inventories where a portion is subject to contractual price while the remainder is not, their net realizable values are determined and compared with their corresponding costs respectively to recognize the amount of provision, or reversal of provision, for inventory obsolescence.

4. Long-term asset impairment

As mentioned in Note 3 (20) 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, right-of-use assets and intangible assets with definite useful lives, when there is evidence that the assets are impaired as at the balance sheet date, the recoverable amount is estimated. For goodwill arising from business combination, whether there is evidence of impairment or not, impairment test is conducted annually. Impairment test is performed on goodwill together with its relevant asset group or asset group combination. The result of the measurement of the recoverable amounts shows that, if the recoverable amount of the long-term asset is lower than its carrying amount, the carrying amount of the asset is written down to the recoverable amount. The amount written down is recognized as impairment loss through profit or loss and is provided for the corresponding asset impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(31) Material changes in accounting policies

Changes in accounting policies caused by changes in ASBE

1. The 2019 financial statements were prepared by the Company in accordance with the Notice on Revising and Issuing the Format of 2019 Financial Statements of General Enterprises (Cai Kuai [2019] No.6) and the Notice on Revising and Issuing the Format of Consolidated Financial Statements (2019 Edition) (Cai Kuai [2019] No.16) issued by the Ministry of Finance 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	
		Accounts receivable	468,614,553.04
		Financing receivables	142,065,764.04
Short-term borrowings (Note 1)	20,000,000.00	Short-term borrowings	20,027,912.50
Long-term borrowings (Note 1)	9,080,000.00	Long-term borrowings	9,962,136.12
Notes payable and accounts payable	428,731,466.38	Notes payable	120,498,802.21
		Accounts payable	308,232,664.17
Other payables (Note 1)	1,884,413.39	Other payables	974,364.77
Other current liabilities (Note 2)	28,305,075.09	Other current liabilities	18,038,269.86
Deferred income (Note 2)	41,967,767.80	Deferred income	52,234,573.03

(Note 1): The "interest on financial instruments accrued based on the effective interest rate method" of RMB910,048.62 was reclassified from "Other payables" to the balance of carrying amount of the relevant financial instruments.

(Note 2): The "government grants expected to be amortized within one year (including one year)" of RMB10,266,805.23 was reclassified from "other current liabilities" to "deferred income".

2. From 1 January 2019, the Company has adopted the revised Accounting Standards for Business Enterprises No.21 — Lease (hereinafter referred to as the New Lease Standard).
 - (1) For contracts that already existed prior to 1 January 2019, the Company did not assess whether such contracts were or contained a lease.
 - (2) In accordance with the New Lease Standard, as a lessee, the Company did not need to make any adjustment to the information for the comparative period; on the date of first-time adoption, with regard to the difference between the New Lease Standard and the original standard, the retained earnings and other relevant items in the financial statements at the beginning of the reporting period are subject to retrospective adjustments. The adoption of the New Lease Standard did not impose any impact on the financial statements of the Company as at 1 January 2019.
 - (3) For the operating leases of leased assets that were low value assets which were entered into prior to 1 January 2019, the Company adopted a simplified approach. The Company did not recognize right-of-use assets or leasing liabilities, and did not make retrospective adjustments in respect of these leases.
 - (4) For leases to which the Company acts as a lessor, the Company did not make retrospective adjustments in respect of these leases.
3. The Company has adopted the revised Accounting Standards for Business Enterprises No.7 — Exchange of Non-monetary Assets with effect from 10 June 2019 and the revised Accounting Standards for Business Enterprises No.12 — Debt Restructuring with effect from 17 June 2019, and such changes of accounting policies are subject to prospective adjustments.

NOTES TO THE FINANCIAL STATEMENTS

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4. TAXATION

(1) Major Taxes and Tax Rates

Type of tax	Basis	Tax rate
Value added tax	Sales of goods or rendering of taxable services	16%/13%, 10%/9%, 6%, 5% (Note 1)
Property tax	On the property value less 30%, or on rents	1.2%, 12%
Urban maintenance and construction tax	Amount of payable turnover tax	7%, 5%
Education surcharge	Amount of payable turnover tax	3%
Local education surcharge	Amount of payable turnover tax	2%
Corporate income tax	Amount of taxable income	15%, 25% (Note 2)

(Note 1) Sale of the steering systems, parts and other commodities by the Company has been previously subject to the value-added tax (VAT) at the rate of 16%, while leasing of the properties acquired after 30 April 2016 has been previously subject to the VAT at the rate of 10%. 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 being subsidiaries of the Company; and the previous export rebate rate on export goods was 16%. In accordance with the Announcement on Policies for Deepening the VAT Reform (Announcement [2019] No.39) issued by the Ministry of Finance, State Taxation Administration and General Administration of Customs, the VAT rates on sales behaviors or import goods of the taxpayers at the previous rates of 16% and 10% have been changed to 13% and 9% respectively, with effect from 1 April 2019. The export rebate rate for exported goods and labour services, which were previously subject to the VAT rate and export rebate rate of 16% and 16%, was adjusted to 13%, with effect from 1 July 2019 covering all exported goods.

The transfer of patented technologies and provision of services by the Company and otherwise have been subject to the VAT at the rate of 6%, and leasing of properties acquired prior to 30 April 2016 has been subject to the VAT at the simplified rate of 5%.

(Note 2) Details of corporate income tax rates of different entities:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

4. TAXATION (continued)

(2) Tax Concession and Approval Documents

1. According to the “Letter Regarding 2017 1st Batch Filing of High-tech Enterprises of Zhejiang Province” issued by the Leading Group Office of National High-tech Enterprises Recognition and Management (CTP No. [2017] 201), the Company’s subsidiaries, Hangzhou Shibao Auto Steering Gear Co., Ltd. and Hangzhou New Shibao Electric Power Steering Co., Ltd. obtained the High-tech Enterprise Certificates (No. GR201733000242 and GR201733001928 respectively) during 2017, with a valid period from 2017 to 2019. They are subject to a corporate income tax rate of 15% during the period.
2. According to the “Administrative Measures for the Recognition of High-tech Enterprises” (CTP No. [2016] 32) and the “Guidelines for the Recognition Management Work of High-tech Enterprises” (CTP No. [2016] 195), the Company’s subsidiary, Beijing Autonics Technology Co., Ltd. obtained the High-tech Enterprise Certificate (No. GR201711007542) during 2017, with a valid period from 2017 to 2019. It is subject to a corporate income tax rate of 15% during the period.
3. According to the “Notification Regarding the Announcement of the List of the First Batch of High-tech Enterprises of Anhui Province Recognized in 2017” (Ke Gao No. [2017] 62) issued by the Anhui Provincial Department of Science and Technology, Anhui Provincial Department of Finance, Anhui Provincial Office, SAT and Anhui Local Taxation Bureau, the Company’s subsidiary, Wuhu Sterling Steering System Co., Ltd. obtained the High-tech Enterprise Certificate (No. GR201734000456) during 2017, with a valid period from 2017 to 2019. It is subject to a corporate income tax rate of 15% during the period.
4. According to the Announcement on Policies for Deepening the VAT Reform (Announcement [2019] No.39) issued by the Ministry of Finance, State Taxation Administration and General Administration of Customs, the Company meets the conditions for return of the deductible input VAT as at the end of the period, and the deductible input VAT returned in 2019 was RMB5,661,332.90.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Remark: the balance at the beginning of the period as stated in these financial statements represents the balance as at 1 January 2019 which was the balance at the end of last year as stated in the financial statements of the previous year and adjusted according to the new lease standard.

(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	146,405.44	276,914.88
Bank deposits	116,967,076.35	120,016,270.09
Other monetary funds	13,709,633.73	9,238,164.95
Total	130,823,115.52	129,531,349.92
Including: total funds placed overseas		

(2) Notes on funds restricted in use, placed overseas, or remittance of funds is restricted due to charge, pledge, or freeze:

Other monetary funds at the end of the period represents the guarantee deposits of RMB13,709,633.73 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	71,000,000.00	60,000,000.00
Including: bank short-term wealth management products	71,000,000.00	60,000,000.00
Total	71,000,000.00	60,000,000.00

(2) Bank wealth management products

As at 31 December 2019, the Company held various wealth management products in a total amount of RMB71,000,000.00 purchased from Agricultural Bank of China Limited and Industrial Bank Co., Ltd.. All of the above wealth management products were bank short-term wealth management products, which could be redeemed at any time.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Accounts receivable

(1) Breakdown

1) Breakdown by type

Type	Balance at the end of the period				Book value
	Carrying amount Amount	(%)	Provision for bad debts Amount	Provision (%)	
Bad debt provision on individual basis	55,621,046.45	12.20	55,621,046.45	100.00	
Bad debt provision by groups	400,243,555.17	87.80	1,394,778.28	0.35	398,848,776.89
Total	455,864,601.62	100.00	57,015,824.73	12.51	398,848,776.89

Type	Balance at the beginning of the period				Book value
	Carrying amount Amount	(%)	Provision for bad debts Amount	Provision (%)	
Bad debt provision on individual basis	5,575,219.98	1.17	5,012,902.80	89.91	562,317.18
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

2) Accounts receivable with bad debt provision on individual basis at the end of the period

Company Name	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Hubei Meiyang Auto Industrial Co., Ltd. (湖北美洋汽車工業有限公司)	15,173,882.52	15,173,882.52	100.00	The amount was not expected to be recovered in whole
Zhejiang Zotye Automobile Co., Ltd. and its affiliated companies	12,340,764.03	12,340,764.03	100.00	The amount was not expected to be recovered in whole
Chongqing Lifan Passenger Vehicle Co., Ltd. and its branch companies	9,875,654.01	9,875,654.01	100.00	The amount was not expected to be recovered in whole
Jiangsu Jintan Auto Industry Co., Ltd. (江蘇金壇汽車工業有限公司)	7,542,601.30	7,542,601.30	100.00	The amount was not expected to be recovered in whole
Total of other entities	10,688,144.59	10,688,144.59	100.00	The amount was not expected to be recovered in whole
Subtotal	55,621,046.45	55,621,046.45	100.00	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Accounts receivable (continued)

(1) Breakdown (continued)

3) Accounts receivable with provision for bad debt by groups

Item	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Age group	400,243,555.17	1,394,778.28	0.35
Subtotal	400,243,555.17	1,394,778.28	0.35

4) Accounts receivable with bad debt provision according to the age

Age	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year	392,040,742.41	352,836.68	0.09
1-2 years	5,944,375.77	328,129.55	5.52
2-3 years	2,009,921.85	465,296.91	23.15
Over 3 years	248,515.14	248,515.14	100.00
Subtotal	400,243,555.17	1,394,778.28	0.35

(2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for bad debts	Proportion (%)	Carrying amount	Provision for bad debts	Proportion (%)
Within 1 year	417,690,591.03	26,002,685.30	6.23	453,488,096.59	292,027.34	0.06
1-2 years	30,080,472.69	24,464,226.47	81.33	15,079,464.71	673,619.34	4.47
2-3 years	3,271,066.31	1,726,441.37	52.78	1,867,853.03	855,214.61	45.79
Over 3 years	4,822,471.59	4,822,471.59	100.00	4,318,396.33	4,318,396.33	100.00
Total	455,864,601.62	57,015,824.73	12.51	474,753,810.66	6,139,257.62	1.29

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Accounts receivable (continued)

(3) Change in provision for bad debts

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	
Bad debt provision on individual basis	5,012,902.80	51,545,478.48				937,334.83		55,621,046.45
Provision for bad debt by groups	1,126,354.82	268,423.46						1,394,778.28
Subtotal	6,139,257.62	51,813,901.94				937,334.83		57,015,824.73

(4) Accounts receivable written off during the period

- 1) During the period, accounts receivable in an amount of RMB937,334.83 were written off.
- 2) Important accounts receivable written off during the period

Name	Nature of the receivables	Amount written off	Reason for the write-off	Write-off procedure	Did a related party transaction occur in respect of the payment
Chongqing Longrun Automobile Steering Gear Co., Ltd. (重慶龍潤汽車轉向器有限公司)	Accounts receivable from sales of goods	937,334.83	The amount was not to be recovered	Approved by the Management	No
Subtotal		937,334.83			

(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)	108,918,495.75	23.89	115,675.22
FAW Jiefang Automobile Co., Ltd. (一汽解放汽車有限公司)	29,790,039.63	6.53	26,811.04
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	27,556,370.59	6.04	24,800.73
Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司)	23,598,212.78	5.18	37,855.52
FAW Car Co., Ltd. (一汽轎車股份有限公司)	18,095,274.19	3.97	16,285.75
Subtotal	207,958,392.94	45.61	221,428.26

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

4. Financing receivables

(1) Breakdown

1) Breakdown by type

Item	Initial cost	Balance at the end of the period			Carrying amount	Impairment provision
		Interest adjustment	Interest accrued	Change in the fair value		
Notes receivable	141,483,082.75				141,483,082.75	
Total	141,483,082.75				141,483,082.75	

Item	Initial cost	Balance at the beginning of the period			Carrying amount	Impairment provision
		Interest adjustment	Interest accrued	Change in the fair value		
Notes receivable	142,065,764.04				142,065,764.04	
Total	142,065,764.04				142,065,764.04	

2) Impairment provision for financing receivables by groups

Item	Balance at the end of the period		
	Carrying amount	Impairment provision	Provision proportion (%)
Bank acceptance bills by groups	141,483,082.75		
Subtotal	141,483,082.75		

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

Item	Pledged amount at the end of the period
Bank acceptance bills	54,073,059.29
Subtotal	54,073,059.29

(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 not yet derecognized at the end of the period
Bank acceptance bills	277,972,511.97
Subtotal	277,972,511.97

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

4. Financing receivables (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 (continued)

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.

5. Prepayments

(1) Aging analysis

1) Breakdown

Aging	Balance at the end of the period			Balance at the beginning of the period			
	Carrying amount	Provision for (%)	Book value	Carrying amount	Provision for (%)	bad debts	Book value
Within 1 year	6,037,733.49	91.98	6,037,733.49	5,162,785.29	86.60		5,162,785.29
1-2 years	526,189.12	8.02	526,189.12	798,545.90	13.40		798,545.90
Total	6,563,922.61	100.00	6,563,922.61	5,961,331.19	100.00		5,961,331.19

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

(2) The five largest prepayments

Name	Carrying amount	Percentage of the total prepayments carrying amount (%)
Benxi City Juxinda Machinery Manufacturing Co., Ltd. (本溪市聚鑫達機械製造有限公司)	1,636,609.91	24.93
National Grid Jilin Province Electric Power Supply Company Siping City Electric Power Supply Company (國網吉林省電力有限公司四平供電公司)	389,896.71	5.94
Shenzhen Deruitai Electronics Co., Ltd. (深圳市德瑞泰電子有限公司)	363,000.00	5.53
Sinopec Marketing Co., Ltd. Zhejiang and Hangzhou Petroleum Branch (中國石化銷售股份有限公司浙江杭州石油分公司)	357,271.46	5.44
Jingshan (Xiamen) Technology Co., Ltd. (井善(廈門)科技有限公司)	274,835.79	4.19
Subtotal	3,021,613.87	46.03

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

6. Other receivables

(1) Breakdown

1) Breakdown by types

Types	Carrying amount		Balance at the end of the period Provision for bad debts		Book value
	Amount	(%)	Amount	(%)	
Bad debt provision on individual basis	358,779.64	5.14	358,779.64	100.00	
Including: other receivables	358,779.64	5.14	358,779.64	100.00	
Provision for bad debt by groups	6,624,835.27	94.86			6,624,835.27
Including: other receivables	6,624,835.27	94.86			6,624,835.27
Total	6,983,614.91	100.00	358,779.64	5.14	6,624,835.27

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

2) Other receivables with bad debt provision on individual basis at the end of the period

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

3) Other receivables with provision for bad debt by groups

Group	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Receivables from government	3,225,240.00		
Deposits receivable	947,002.00		
Imprest receivable and etc.	2,452,593.27		
Sub-total	6,624,835.27		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (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) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of amount		
	Carrying amount	Provision for bad debts	Proportion (%)	Carrying amount	Provision for bad debts	Proportion (%)
Within 1 year	1,952,221.65			2,656,192.74		
1-2 years	370,866.50			1,115,635.57		
2-3 years	855,671.05			3,477,592.04	100,000.00	2.88
Over 3 years	3,804,855.71	358,779.64	9.43	333,313.67	258,779.64	77.64
Total	6,983,614.91	358,779.64	5.14	7,582,734.02	358,779.64	4.73

(3) Change in provision for bad debts

1) Breakdown

Item	Stage 1 12-month expected credit loss	Stage 2 lifetime expected credit losses (not credit impaired)	Stage 3 lifetime expected credit losses (credit impaired)	Total
Balance at the beginning of the period			358,779.64	358,779.64
Balance at the beginning of the current period				
- Transfer to stage 2				
- Transfer to stage 3				
- Transfer back to stage 2				
- Transfer back to stage 1				
Provision made during the period				
Recovered during the period				
Reversed during the period				
Written off during the period				
Other changes				
Balance at the end of the period			358,779.64	358,779.64

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (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)

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

(5) Classification by nature of other receivables

Nature of the receivables	Balance at the end of the period	Balance at the beginning of the period
Other receivables		
Security deposits	947,002.00	704,952.00
Government Provisional borrowings	3,225,240.00	3,225,240.00
Imprest	1,994,233.08	3,293,762.38
Others	817,139.83	358,779.64
Total	6,983,614.91	7,582,734.02

(6) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Aging	Percentage of other receivables carrying amount (%)	Provision for bad debts
Jilin Tiedong Economic Development Zone Administrative Committee (吉林鐵東經濟開發區管理委員會)	Provisional borrowings	3,225,240.00	over 3 years	46.18	
Kaitu Testing Technology (Shandong) Co., Ltd. (凱圖檢測技術(山東)有限公司)	Deposits	640,000.00	within 1 year	9.16	
Panfar Construction Group Co., Ltd. (八方建設集團有限公司)	Other	458,360.19	1-2 years, 2-3 years	6.56	
Shenzhen Haoyuan Technology Company Limited (深圳市好域安科技有限公司)	Other	234,542.00	over 3 years	3.36	234,542.00
Guo Zhiqiang (郭志強)	Imprest	157,600.00	within 1 year	2.26	
Sub-total		4,715,742.19		67.52	234,542.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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	70,300,497.71	8,385,337.87	61,915,159.84	79,925,390.95		79,925,390.95
Work-in-progress	24,146,616.43		24,146,616.43	28,061,200.70		28,061,200.70
Finished goods	149,509,982.99	24,320,483.94	125,189,499.05	188,414,111.22	3,629,447.06	184,784,664.16
Low-value consumables	6,869,315.41	1,282,577.19	5,586,738.22	3,846,226.56		3,846,226.56
Total	250,826,412.54	33,988,399.00	216,838,013.54	300,246,929.43	3,629,447.06	296,617,482.37

(2) Provision

1) Breakdown

Item	Beginning of the period	Increase during the period		Decrease during the period		End of the period
		Provision	Others	Reversal or write-off	Others	
Raw materials		8,385,337.87				8,385,337.87
Finished goods	3,629,447.06	23,691,239.14		3,000,202.26		24,320,483.94
Low-value consumables		1,282,577.19				1,282,577.19
Sub-total	3,629,447.06	33,359,154.20		3,000,202.26		33,988,399.00

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

Item	Determination of specific basis for net realizable value	Reason for reversal of provision for inventory obsolescence during the current period	Reason for write-off of provision for inventory obsolescence during the current period
Relevant raw materials, finished goods and low-value consumables such as automotive steering gears, etc.	The net realizable value is determined, based on the estimated sales price of the relevant finished goods less the estimated costs to be incurred for completion, estimated sales expenses and relevant taxes (Note)	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 consumed or sold

Note: Being affected by various factors at home and abroad, the domestic economy was under greater downward pressure. In particular, the automobile industry in China experienced a trend of substantial decline, with a number of domestic self-owned automobile brand manufacturers were in a difficult situation. As a result, the Company took stock of the inventories kept for the customers to whom we have suspended goods supply due to their financial difficulty (customers for whom bad debt provision for accounts receivable has been made on individual basis as set out in Note 5(1)3 to the financial statements), and made provision for inventory obsolescence for inventories that were not expected to bring benefits through sale or use. The rest of the inventories were measured at the lower of their costs or net realizable value, and provision for inventory obsolescence were made when the net realizable value was lower than the costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

8. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax recoverable	18,148,967.39	12,194,850.15
Prepaid expenses	69,409.14	325,758.80
Prepaid corporate income tax	658,352.39	1,504,287.83
Total	18,876,728.92	14,024,896.78

9. Investment Property

(1) Breakdown

Item	Buildings	Land use right	Total
Original carrying amount			
Balance at the beginning of the period	24,285,332.35		24,285,332.35
Increase during the period	25,706,065.69	8,255,372.00	33,961,437.69
1) Transfer-in of construction in progress	14,027,618.90		14,027,618.90
2) Transfer-in of fixed assets	11,678,446.79		11,678,446.79
3) Transfer-in of intangible assets		8,255,372.00	8,255,372.00
Balance at the end of the period	49,991,398.04	8,255,372.00	58,246,770.04
Accumulated depreciation and accumulated amortization			
Balance at the beginning of the period	410,281.37		410,281.37
Increase during the period	8,166,375.56	4,062,083.36	12,228,458.92
1) Provision or amortisation	1,623,079.22	114,084.16	1,737,163.38
2) Transfer-in of fixed assets	6,543,296.34		6,543,296.34
3) Transfer-in of intangible assets		3,947,999.20	3,947,999.20
Balance at the end of the period	8,576,656.93	4,062,083.36	12,638,740.29
Carrying amount			
Carrying amount at the end of the period	41,414,741.11	4,193,288.64	45,608,029.75
Carrying amount at the beginning of the period	23,875,050.98		23,875,050.98

(2) Information about fixed assets without certificate of title

Item	Carrying amount	Reason for not obtaining certificate of title
The New Shibao Phase 2 plant (let out)	13,837,244.07	Still under process
Sub-total	13,837,244.07	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (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
Cost					
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
Increase during the period	5,603,370.64	147,390,726.60	310,803.39	401,578.50	153,706,479.13
1) Purchase	303,876.15	2,343,044.10	310,803.39	388,835.14	3,346,558.78
2) Transfer from construction in progress	5,299,494.49	145,047,682.50		12,743.36	150,359,920.35
Decrease during the period	11,678,446.79	8,832,623.67	2,589,282.42	166,534.19	23,266,887.07
1) Disposal		8,832,623.67	2,589,282.42	166,534.19	11,588,440.28
2) Transfer to investment property	11,678,446.79				11,678,446.79
Balance at the end of the period	<u>334,818,318.05</u>	<u>864,003,182.18</u>	<u>17,957,276.43</u>	<u>25,470,526.17</u>	<u>1,242,249,302.83</u>
Accumulated depreciation					
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
Increase during the period	10,400,550.36	61,942,439.32	2,104,152.92	1,936,178.77	76,383,321.37
1) Provision	10,400,550.36	61,942,439.32	2,104,152.92	1,936,178.77	76,383,321.37
Decrease during the period	6,543,296.34	4,767,877.00	2,363,151.51	66,052.92	13,740,377.77
1) Disposal		4,767,877.00	2,363,151.51	66,052.92	7,197,081.43
2) Transfer to investment property	6,543,296.34				6,543,296.34
Balance at the end of the period	<u>68,941,780.34</u>	<u>426,679,344.57</u>	<u>12,616,644.47</u>	<u>16,671,442.94</u>	<u>524,909,212.32</u>
Provision					
Balance at the beginning of the period	825,717.39	245,524.61			1,071,242.00
Balance at the end of the period	<u>825,717.39</u>	<u>245,524.61</u>			<u>1,071,242.00</u>
Book value					
Book value at the end of the period	<u>265,050,820.32</u>	<u>437,078,313.00</u>	<u>5,340,631.96</u>	<u>8,799,083.23</u>	<u>716,268,848.51</u>
Book value at the beginning of the period	<u>274,983,150.49</u>	<u>355,694,772.39</u>	<u>7,360,112.40</u>	<u>10,434,164.77</u>	<u>648,472,200.05</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

10. Fixed assets (continued)

(2) Information about fixed assets without certificate of title

Project	Carrying amount	Reason for not obtaining certificate of title
The Siping R&D building and complex plant	20,813,018.04	Still under process
The New Shibao Phase 2 plant (self use)	5,227,572.78	Still under process
Wanda real estate	1,978,994.78	Still under process
Sub-total	28,019,585.60	

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	33,889,233.48		33,889,233.48	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	67,873,473.29		67,873,473.29	24,842,997.63		24,842,997.63
The New Shibao new plant (phase 2) project (新世寶新建廠房(二期)項目)				17,817,670.03		17,817,670.03
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	6,413,999.73		6,413,999.73	8,397,966.95		8,397,966.95
Other sundry projects	9,971,587.62		9,971,587.62	30,239,537.53		30,239,537.53
Total	118,148,294.12		118,148,294.12	101,847,457.97		101,847,457.97

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (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 (continued)

(2) Movement during the period

Project name	Budget (RMB0,000)	Balance at the beginning of the period	Increase during the period	Transfer to fixed assets	Transfer to investment real estate	Balance at the end of the period
The precious casting and processing of automotive components project	23,536.41	20,549,285.83	62,820,535.88	49,480,588.23		33,889,233.48
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	93,849,616.39	50,819,140.73		67,873,473.29
The New Shibao new plant (phase 2) project (新世寶新建廠房(二期)項目)	2,600.00	17,817,670.03	406,993.38	18,224,663.41		
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	81,141.67	8,397,966.95	13,429,347.98	15,413,315.20		6,413,999.73
Other sundry projects		30,239,537.53	10,191,050.92	16,431,381.93	14,027,618.90	9,971,587.62
Sub-total		101,847,457.97	180,697,544.55	150,369,089.50	14,027,618.90	118,148,294.12

Project name	Percentage of accumulative invested amount to budget (%)	Construction progress (%)	Accumulated amount of capitalized interests	Amount of capitalized interests during the period	Interest rate of capitalized interests during the period (%)	Source of fund
The precious casting and processing of automotive components project	60.29	60.00				Internal fund and fund raising
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	54.37	60.00				Internal fund and fund raising
The New Shibao new plant (phase 2) project (新世寶新建廠房(二期)項目)	70.09	100.00				Internal fund
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	4.73	5.00				Internal fund
Other sundry projects						Internal fund
Sub-total						

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (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	Patent	Non-patented technology	Management software	Total
Cost					
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
Increase during the period	614,401.00			1,505,512.58	2,119,913.58
1) Purchase	614,401.00			1,505,512.58	2,119,913.58
Decrease during the period	8,255,372.00				8,255,372.00
1) Transfer to investment real estate	8,255,372.00				8,255,372.00
Balance at the end of the period	<u>97,477,656.43</u>	<u>1,281,666.67</u>	<u>48,696,372.12</u>	<u>7,291,177.58</u>	<u>154,746,872.80</u>
Accumulated amortization					
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
Increase during the period	2,028,099.94	128,167.65	2,382,900.53	660,598.51	5,199,766.63
1) Provision	2,028,099.94	128,167.65	2,382,900.53	660,598.51	5,199,766.63
Decrease during the period	3,947,999.20				3,947,999.20
1) Transfer to investment real estate	3,947,999.20				3,947,999.20
Balance at the end of the period	<u>19,480,750.34</u>	<u>1,174,865.93</u>	<u>46,254,948.79</u>	<u>4,589,544.99</u>	<u>71,500,110.05</u>
Book value					
Book value at the end of the period	<u>77,996,906.09</u>	<u>106,800.74</u>	<u>2,441,423.33</u>	<u>2,701,632.59</u>	<u>83,246,762.75</u>
Book value at the beginning of the period	<u>83,717,977.83</u>	<u>234,968.39</u>	<u>4,824,323.86</u>	<u>1,856,718.52</u>	<u>90,633,988.60</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

12. Intangible assets (continued)

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

Item	Balance at the end of the period	Balance at the beginning of the period
Outside Hong Kong including: interim lease	77,996,906.09	83,717,977.83
	77,996,906.09	83,717,977.83
Sub-total	77,996,906.09	83,717,977.83

13. Goodwill

(1) Original carrying amount of goodwill

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

(2) Goodwill impairment provision

Name of the investee	Balance as at the beginning of the period	Increase during the period		Decrease during the period		Amounts at the end of the period
		Accrual	Others	Disposal	Others	
Wuhu Sterling Steering System Co., Ltd		4,694,482.34				4,694,482.34
Sub-total		4,694,482.34				4,694,482.34

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

13. Goodwill (continued)

(3) The process of goodwill impairment testing

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

Composition of asset groups or combination of asset groups	Wuhu Sterling Steering System Co., Ltd. Relevant assets and liabilities as at 31 December 2019
Carrying amounts of asset groups or combination of asset groups	519,933.78
Goodwill allocated to asset groups or combination of asset groups	
Carrying amount and allocation method	8,109,314.80 included goodwill attributable to minority shareholders
Carrying amounts of asset groups or combination of asset groups including goodwill	8,629,248.58
Are asset groups or combination of asset groups consistent with the asset groups or combination of asset groups confirmed at the acquisition date or at the time of goodwill impairment test during prior years	Yes

2) Process, method and conclusions of goodwill impairment test

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

According to Appraisal Report (KUN YUAN PING BAO [2020] No. 143) issued by Canwin Appraisal Co., Ltd. (坤元資產評估有限公司) engaged by the Company, the recoverable amount of the asset group or asset group combination that included goodwill was RMB405,287.32, which was lower than the carrying amount of RMB8,223,961.26, thus the Company recognized goodwill impairment loss of RMB8,109,314.80 for the period, of which goodwill impairment loss attributable to the Company amounted to RMB4,694,482.34.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (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

(1) Deferred income tax assets which are not offset

Item	Balance at the end of the period		Balance at the beginning of the end	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	49,070,089.29	8,047,682.07	8,715,416.42	1,718,633.10
Profits not realized from intra-group transactions	2,305,972.61	418,075.18	3,439,044.23	568,700.15
Accrued Warranty expenses	17,093,266.24	3,178,439.75	9,126,049.87	1,508,405.77
Total	68,469,328.14	11,644,197.00	21,280,510.52	3,795,739.02

(2) Deferred income tax liabilities which are not offset

Item	Balance at the end of the period		Balance at the beginning of the period	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Asset valuation surplus arising from business combination not under the common control	11,025,302.96	2,756,325.71	12,426,319.52	3,106,579.85
Total	11,025,302.96	2,756,325.71	12,426,319.52	3,106,579.85

Taxable temporary differences include:

- There are taxable temporary differences arising from fair value adjustment on various identifiable assets and liabilities in acquiring Wuhu Sterling Steering System Co., Ltd through business combination not under the common control in stages during 2013. The balance as at the beginning of 2019 was RMB11,016,485.86. During the period, taxable temporary differences of the reversal of fair value amortization was RMB632,016.60. As at 31 December 2019, the taxable temporary differences arising from such fair value adjustment amounted to RMB10,384,469.26.
- In previous years, there were taxable temporary differences arising from fair value adjustment in various identifiable assets and liabilities in acquiring Beijing Autonics Technology Co., Ltd through business combination not under the common control. Its balance as at the beginning of 2019 was RMB1,409,833.66. During the period, taxable temporary differences of the reversal of fair value amortization was RMB768,999.96. As at 31 December 2019, the taxable temporary differences arising from such fair value adjustment amounted to RMB640,833.70.

(3) Analysis of unrecognized deferred income tax assets

Item	Balance at the end of the period	Balance at the beginning of the period
Deductible temporary difference	41,934,134.44	1,053,288.26
Deductible loss	249,930,090.96	100,670,477.08
Sub-total	291,864,225.40	101,723,765.34

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (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)

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

Year	Balance at the end of the period	Balance at the beginning of the period	Note
2019			
2020	689,503.16	689,503.16	
2021			
2022	1,524,722.02	1,524,722.02	
2023	26,000,234.14	26,000,234.14	
2024	65,421,569.65	17,327,830.20	
2025	10,001,379.12	10,001,379.12	
2026			
2027	25,877,485.14	25,877,485.14	
2028	19,249,323.30	19,249,323.30	
2029	101,165,874.43		
Sub-total	249,930,090.96	100,670,477.08	

15. Other non-current assets

Item	Balance at the end of the period	Balance at the beginning of the period
Prepaid for purchase of long term assets	9,221,484.68	47,719,083.17
Total	9,221,484.68	47,719,083.17

16. Short-term borrowings

Item	Balance at the end of the period	Balance at the beginning of the period
Guaranteed loans (Note)	90,117,123.29	20,027,912.50
Credit loans	53,068,972.60	
Total	143,186,095.89	20,027,912.50

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

17. Notes payable

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bill	78,049,284.98	120,498,802.21
Sub-total	78,049,284.98	120,498,802.21

(2) There are no mature but unpaid bill payables 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	330,992,268.79	287,133,565.26
Long-term assets purchase payable	22,452,728.36	21,099,098.91
Sub-total	353,444,997.15	308,232,664.17

(2) Aging analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	335,039,531.43	297,625,066.68
1-2 years	10,354,208.86	3,744,206.81
2-3 years	2,945,278.35	4,202,557.32
Over 3 years	5,105,978.51	2,660,833.36
Sub-total	353,444,997.15	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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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	5,180,624.33	2,090,618.17
Total	5,180,624.33	2,090,618.17

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

20. Contract liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Receipts in advance from sale of commodities	3,296,944.39	3,902,211.90
Total	3,296,944.39	3,902,211.90

21. Staff costs payable

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Short-term remuneration	12,869,724.74	139,013,239.90	139,656,437.09	12,226,527.55
Post-employment benefits — established withdrawal and deposit plan	711,360.87	11,187,726.86	11,183,336.31	715,751.42
Dismissal benefits		67,920.00	67,920.00	
Total	<u>13,581,085.61</u>	<u>150,268,886.76</u>	<u>150,907,693.40</u>	<u>12,942,278.97</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

21. Staff costs payable (continued)

(2) Breakdown of short-term remuneration

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Salaries, bonus, allowances and subsidies	12,059,154.18	116,143,212.58	116,879,435.15	11,322,931.61
Staff welfare (Note)		11,517,491.88	11,517,491.88	
Social insurance	547,499.77	7,575,728.52	7,532,405.52	590,822.77
Including: Medical insurance	484,342.36	6,635,026.35	6,613,460.65	505,908.06
Work injury insurance	14,110.65	326,681.44	326,165.78	14,626.31
Maternity insurance	49,046.76	614,020.73	592,779.09	70,288.40
Housing funds	40,300.00	2,117,979.24	2,139,369.24	18,910.00
Labour union funds and employee education funds	222,770.79	1,658,827.68	1,587,735.30	293,863.17
Sub-total	<u>12,869,724.74</u>	<u>139,013,239.90</u>	<u>139,656,437.09</u>	<u>12,226,527.55</u>

(Note): Non-monetary benefits during the period RMB878,426.52 are all corresponding provision made on buildings and other assets provided to employee to use free of charge with an amount of RMB878,426.52.

(3) Breakdown of established withdrawal and deposit plan

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Basic pension insurance	679,708.35	10,820,456.42	10,816,892.73	683,272.04
Unemployment insurance	31,652.52	367,270.44	366,443.58	32,479.38
Sub-total	<u>711,360.87</u>	<u>11,187,726.86</u>	<u>11,183,336.31</u>	<u>715,751.42</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.

22. Taxes payable

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax	216,152.75	253,849.07
Corporate income tax		602,699.27
Withhold of individual income tax	388,068.19	167,131.45
Urban maintenance and construction tax	167,799.37	32,034.74
Property tax	1,405,775.81	696,159.66
Others	437,478.17	154,080.50
Total	<u>2,615,274.29</u>	<u>1,905,954.69</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

23. Other payables

(1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Deposits	1,093,273.15	664,605.00
Labour service company management fees		76,876.50
Others	687,663.23	232,883.27
Sub-total	1,780,936.38	974,364.77

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

24. Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Accrued expenses	24,493,970.73	18,038,269.86
Amounts to be transferred to output VAT	428,602.76	
Total	24,922,573.49	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
Long-term borrowings (Note 1)	8,800,000.00	8,800,000.00
Special funds for treasury bonds (Note 2)		1,162,136.12
Total	8,800,000.00	9,962,136.12

(Note 1): These loans represented the interest-free capital loans from the Management Committee of the Tiedong Economic Development Zone in Siping to the Company's subsidiary, Jilin Shibao Machinery Manufacturing Co., Ltd., to expand production. The corresponding loans are not yet due for settlement.

(Note 2): These loans represented special funds for treasury bonds on key technological improvement projects of the State provided by the Ministry of Finance in Siping to the Company's subsidiary, Jilin Shibao Machinery Manufacturing Co., Ltd.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

25. Long-term borrowings (continued)

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

Item	Balance at the end of the period	Balance at the beginning of the period
Current or within 1 year		
1-2 years		
2-5 years	8,800,000.00	9,962,136.12
Over 5 years		
Sub-total	8,800,000.00	9,962,136.12
Including: Long-term loans due within 1 year		
Long-term loans due over 1 year	8,800,000.00	9,962,136.12

26. Deferred income

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Reason
Government grants	52,234,573.03	1,789,300.00	10,441,391.47	43,582,481.56	
Total	52,234,573.03	1,789,300.00	10,441,391.47	43,582,481.56	

(2) For details of government grants which were credited to the profit or loss during the period, please see descriptions of the note 5(4)3 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					Sub-total	Balance at the end of the period
		Issuance of new shares	Bonus shares	Transfer from reserves	Others			
Shares with selling restrictions								
A Shares	19,793,685.00						19,793,685.00	
H Shares								
Shares without selling restrictions								
A Shares	553,065,952.00						553,065,952.00	
H Shares	216,785,000.00						216,785,000.00	
Total	789,644,637.00						789,644,637.00	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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
Share premium	175,889,704.74			175,889,704.74
Other capital reserve	6,444,389.04			6,444,389.04
Total	<u>182,334,093.78</u>			<u>182,334,093.78</u>

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			135,379,620.20
Total	<u>135,379,620.20</u>			<u>135,379,620.20</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	371,188,331.83	364,772,936.30
Total amount of adjustment (increase +, decrease-)		-395,716.48
Retained earnings at the beginning of the year after adjustment	371,188,331.83	364,377,219.82
Add: Net profit attributable to equity holders of the Parent	-176,711,694.44	7,278,368.34
Less: Transfer to statutory reserve funds		467,256.33
Retained earnings at the end of the period	<u>194,476,637.39</u>	<u>371,188,331.83</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(2) Notes to the Consolidated Income Statement

1. Revenue/cost of sales

(1) Breakdown

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Revenue from main business	964,554,512.66	837,149,050.62	1,110,658,761.08	926,099,671.85
Revenue from other business	17,815,849.40	7,163,464.08	22,438,968.77	12,762,840.43
Total	982,370,362.06	844,312,514.70	1,133,097,729.85	938,862,512.28

(2) Performance obligation

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

2. Business taxes and surcharges

Item	Balance for the current period	Balance for the corresponding period last year
Urban maintenance and construction tax	1,956,218.31	1,551,741.89
Education surcharge	839,113.51	669,956.16
Local education surcharge	559,134.81	444,532.84
Stamp duty	725,241.52	1,057,114.83
Real estate tax	4,090,894.60	3,385,765.73
Land use tax	1,600,802.54	1,300,057.43
Vehicles and vessels use tax	28,655.64	38,353.78
Environmental protection tax	3,725.55	793.75
Total	9,803,786.48	8,448,316.41

3. Selling expenses

Item	Balance for the current period	Balance for the corresponding period last year
Transportation cost	24,938,851.43	28,113,605.46
Warranty fee	75,226,195.22	25,809,509.60
Wages, welfare and bonuses	8,335,358.10	10,383,132.58
Travelling expenses	2,718,848.13	3,035,088.63
Entertainment charge	5,096,023.08	3,660,366.62
Depreciation of fixed assets	219,179.60	273,870.30
Others	7,794,558.65	7,070,379.01
Total	124,329,014.21	78,345,952.20

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

4. General and administration expenses

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	39,354,831.87	42,422,317.47
Office cost	7,900,781.61	5,220,397.80
Professional service fee	5,138,850.82	7,455,332.00
Depreciation of fixed assets	5,481,254.30	3,970,761.90
Amortization of intangible assets	4,643,927.09	4,823,881.39
Other taxation	112,251.16	217,269.87
Travelling expenses	3,263,894.39	3,633,641.62
Entertainment charge	1,776,838.41	1,968,079.15
Others	3,277,359.56	2,309,069.28
Total	70,949,989.21	72,020,750.48

(2) The general and administration expenses for the current period included 2019 audit fee RMB680,000.00 (2018: RMB680,000.00).

5. Research and development expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	29,469,089.96	30,876,716.04
Direct investment	13,485,469.80	22,854,224.68
Energy costs	1,936,516.36	1,037,242.18
Depreciation of fixed assets	10,168,068.84	6,327,046.39
Amortization of intangible assets	581,931.71	1,315,470.38
Others	6,071,747.19	4,045,911.50
Total	61,712,823.86	66,456,611.17

6. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	4,407,765.65	1,830,859.94
Interest income	-1,490,709.13	-3,672,267.93
Other	100,257.30	1,394,495.41
Including: Net exchange gains and losses	-124,276.65	7,326.32
Total	3,017,313.82	-446,912.58

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

7. Other gains

Item	Balance for this period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Government grants related to assets (Note)	10,441,391.47	9,643,501.47	10,441,391.47
Government grants related to income (Note)	4,773,048.54	10,323,561.38	4,773,048.54
Tax relief	27,000.00		27,000.00
Total	15,241,440.01	19,967,062.85	15,241,440.01

(Note): Description of government grants included in other income during the period is set out in the note 5(4)3 to the consolidated financial statements.

8. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from holding of financial instruments	1,209,913.87	4,275,660.37
Including: financial assets classified as FVTPL	1,209,913.87	4,275,660.37
Total	1,209,913.87	4,275,660.37

9. Credit impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debt losses	-51,813,901.94	-503.96
Total	-51,813,901.94	-503.96

10. Assets impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Provision for inventories losses	-33,359,154.20	-3,430,074.89
Goodwill impairment loss	-4,694,482.34	
Total	-38,053,636.54	-3,430,074.89

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

11. Gains from disposal of assets

Item	Balance for this period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Gains from disposal of fixed assets	531,164.21	11,936,679.95	531,164.21
Gains from disposal of intangible assets		-40,312.00	
Total	531,164.21	11,896,367.95	531,164.21

12. Non-operating income

Item	Balance for this period	Balance for the same period last year	Amount recognized as non-recurring during the period
Transfer from payments not incurred	692,143.89	275,999.93	692,143.89
Penalty income	96,645.12		96,645.12
Others	115,743.96	32,431.63	115,743.96
Total	904,532.97	308,431.56	904,532.97

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
Compensation	204,444.36		204,444.36
Local water conservancy construction fund	137,296.70	132,588.26	
Late payment penalty for tax	17,576.83	364,693.21	17,576.83
Others	76,243.93	38,012.23	76,243.93
Total	435,561.82	535,293.70	298,265.12

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

14. Income tax expenses

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Current income tax	-88,531.54	700,647.46
Deferred income tax	-8,198,712.12	-774,271.95
Total	-8,287,243.66	-73,624.49

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

Item	Balance for the current period	Balance for the corresponding period last year
Total profit	-204,171,129.46	1,892,150.07
Income tax expenses based on tax rate of the parent company	-51,042,782.37	473,037.52
Effects of different applicable tax rates on subsidiaries	15,140,745.97	-510,197.91
Effects of adjusting income tax of prior periods	211,966.86	35,400.97
Effects of non-taxable income	-2,006,014.51	-1,856,014.50
Effects of including and excluding R&D expenses	-5,805,968.60	-6,374,144.70
Effects of non-deductible costs, expenses and losses	2,178,098.22	1,691,643.17
The effect of utilization of deductible loss arising from deferred income tax assets not previously recognized		
The effect of deductible temporary difference arising from unrecognized deferred income tax assets or deductible loss during the period	33,036,710.77	6,466,650.96
Income tax expenses	-8,287,243.66	-73,624.49

(3) No provision for Hong Kong profits tax has been made (2018: Nil) as the Company and its other subsidiaries had no profits generated in or arising from Hong Kong in 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(3) Notes to the Consolidated Statement of Cash Flows

1. Cash received in relation to operating activities

Item	Balance for the current period	Balance for the corresponding period last year
Recovery of deposits including banker's acceptances	9,238,164.95	23,917,026.58
Receipt of government grants	6,562,348.54	14,952,761.38
Advance received from related parties		3,483,967.28
Received operating funds from unrelated parties	5,000,000.00	
Receipt of security deposit	747,236.15	160,100.00
House rent received	9,619,413.72	3,030,400.00
Financial expenses — Interest income	1,490,709.13	3,672,267.93
Others	1,176,706.39	1,125,333.56
Total	33,834,578.88	50,341,856.73

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	49,024,678.68	72,030,280.90
Cash paid as general and administrative expenses	20,857,809.78	17,272,422.07
Cash paid as research and development expenses	8,317,327.74	6,198,726.23
Payment of security deposits	560,618.00	726,700.00
Payment of deposits including banker's acceptances	13,709,633.73	9,238,164.95
Operating payments to non-related parties	5,000,000.00	
Advance paid to related parties		3,483,967.28
Others	112,758.75	3,298,755.40
Total	97,582,826.68	112,249,016.83

3. Cash received in relation to other investing activities

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

4. Cash paid relating to other investing activities

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

5. Supplemental information on the statement of cash flows

(1) Supplemental information on the statement of cash flows

Supplemental information	Balance for the current period	Balance for the corresponding period last year
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	-195,883,885.80	1,965,774.56
Add: Provision for impairment to assets	89,867,538.48	3,430,578.85
Depreciation of fixed assets, oil and gas assets and production	78,006,400.59	70,348,737.35
Amortization of intangible assets	5,313,850.79	7,564,285.95
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-531,164.21	-11,896,367.95
Losses on write-off of fixed assets ("-" for gains)		
Losses on changes of fair value ("-" for gains)		
Financial expenses ("-" for gains)	3,404,436.12	1,806,827.59
Investment losses ("-" for gains)	-1,209,913.87	-4,275,660.37
Decrease in deferred income tax assets ("-" for increase)	-7,848,457.98	-424,017.81
Increase in deferred income tax liabilities ("-" for decrease)	-350,254.14	-350,254.14
Decrease in inventories ("-" for increase)	46,420,314.63	-20,412,893.37
Decrease in operational receivables ("-" for increase)	3,015,777.28	4,871,743.04
Increase in operational payables ("-" for decrease)	19,596,106.16	-65,478,397.00
Others		
Net cash flows from operating activities	39,800,748.05	-12,849,643.30
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	117,113,481.79	120,293,184.97
Less: Cash at the beginning of the period	120,293,184.97	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	-3,179,703.18	-40,132,528.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

(2) Cash and cash equivalents

Item	Balance for the current period	Balance for the corresponding period last year
1) Cash	117,113,481.79	120,293,184.97
Including: Cash on hand	146,405.44	276,914.88
Bank deposit readily available	116,967,076.35	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	117,113,481.79	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 year 2019 was RMB117,113,481.79 and closing balance of cash on hand and at bank in the balance sheet as at 31 December 2019 was RMB130,823,115.52. The difference of RMB13,709,633.73 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 this period	Balance for the corresponding period last year
Transferred endorsed commercial bill	613,056,672.11	884,102,700.32
Including: bills payable	608,024,667.11	863,290,453.13
Payment for the purchase of long-term assets such as fixed assets	5,032,005.00	20,812,247.19

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others

1. Assets with restrictions in ownership or use rights

Item	Carrying amount at the end of the period	Reason for restriction
Monetary funds	13,709,633.73	Security deposit for the notes pool
Bills receivable	54,073,059.29	Pledge of the notes pool
Fixed assets	3,960,944.38	L/C and notes credit mortgage
Intangible assets	3,106,053.65	L/C and notes credit mortgage
Total	<u>74,849,691.05</u>	

2. Monetary items in foreign currencies

Item	Foreign currency balance at the end of the period	Exchange rate	Balance translated into RMB at the end of the period
Monetary funds			
Including: US Dollar	991,092.00	6.9762	6,914,056.01
Euro	86,618.74	7.8155	676,968.76
Trade receivables			
Including: US Dollar	253,157.19	6.9762	1,766,075.19
Euro	143,934.65	7.8155	1,124,921.26
Trade payables			
Including: Euro	1,400,000.00	7.8155	10,941,700.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants

(1) Breakdown

1) Government grants relating to assets

Total-value method

Item	Deferred income at the beginning of the period	Addition of grants during the period	Amortization during the period (Note)	Deferred income 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		3,189,999.96	6,269,166.76	Other gains	Note 1
Subsidy funds for the precious casting and processing of automotive components project	4,227,116.45		102,960.39	4,124,156.06	Other gains	Note 2
Special funds for establishment of a platform for public services provided in foreign trading	1,049,151.70		365,178.60	683,973.10	Other gains	Note 3
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	1,841,440.00		649,920.00	1,191,520.00	Other gains	Note 4
Heavy load hydraulic rack-and-pinion steering gear for high class market	218,204.32		77,013.36	141,190.96	Other gains	Note 5
Subsidies for research and development equipment	130,533.35		32,633.33	97,900.02	Other gains	Note 6
Technological improvement project for quality enhancement of rack-and-pinion steering gears	4,337,406.20		743,555.40	3,593,850.80	Other gains	Note 7
Construction project for development service platform of automotive steering system parts and components	17,805,620.35		3,446,249.16	14,359,371.19	Other gains	Note 8
The annual production of 100,000 electric power steering system project	1,128,888.89		141,111.11	987,777.78	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		1,284,848.52	8,030,302.98	Other gains	Note 10
Technical improvement project of production capacity increasing of 500,000 units/sets of steering gear	1,239,300.96	600,000.00	205,777.20	1,633,523.76	Other gains	Note 11
Key technological research project for high-safety smart automobile steer-by-wire system	900,000.00		90,000.00	810,000.00	Other gains	Note 12
Comprehensive rewards for technical innovation	582,592.59		69,911.11	512,681.48	Other gains	Note 13
Subsidies for purchase of research and development equipment		147,000.00	9,800.00	137,200.00	Other gains	Note 14
Subsidies for the construction of national innovation demonstration zone in Wuhu city		147,000.00	9,800.00	137,200.00	Other gains	Note 15
Comprehensive rewards of the technical innovation and investment of industrial enterprises in Wuhu city		691,600.00		691,600.00	Other gains	Note 16
Internet-of-Things construction project for intelligent production of high-end recirculation ball steering system		203,700.00	22,633.33	181,066.67	Other gains	Note 17
Sub-total	52,234,573.03	1,789,300.00	10,441,391.47	43,582,481.56		

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants (continued)

(1) Breakdown (continued)

1) Government grants relating to assets (continued)

Total-value method (continued)

Item	Description
(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants (continued)

(1) Breakdown (continued)

1) Government grants relating to assets (continued)

Total-value method (continued)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants (continued)

(1) Breakdown (continued)

1) Government grants relating to assets (continued)

Total-value method (continued)

Item	Description
(Note 10)	Jilin Province Development and Reform Commission document of "Notice of Distributing and Granting Special Supporting Fund for Investment Project of Front-stage Work of Important Revitalization Project of All Northeastern Provinces within National Budget in 2017 by Jilin Province Development and Reform Commission" (《吉林省發展和改革委員會關於分解下達2017年全省東北振興重大項目前期工作專項資助資金中央預算內投資計劃的通知》) (Ji Gai Fa Tou Zi (2017) No. 428) (吉發改投資[2017]428號)
(Note 11)	"Notice of Granting of Supporting Fund to Industrial Investment (Technology Transformation) Project of the Zone in 2016" (《關於下達2016年開發區工業投資(技術改造)項目資助資金的通知》) (Hang Jing Kai Guan Fa (2017) No.179) (杭經開管發[2017]179號) issued by the Management Committee of Hangzhou Economic and Technology Zone (杭州經濟技術開發區管理委員會)
(Note 12)	Letter of Acceptance on Tender Topic of "Key Technological Research Project for High-safety Smart Automobile Steer-by-wire System (Tender No: SX2017-18)" issued by Beijing Municipal Science and Technology Committee (北京市科學技術委員會招標課題「高安全性智能汽車線轉向系統關鍵技術研究項目(招標編號: SX2017-18)」中標通知書)
(Note 13)	Notice Regarding the Transmit of the Interim Measures on the Comprehensive Rewards and Subsidies of the Technical Innovation and Investment of Industrial Enterprises in Wuhu City issued by the Commission of Economy and Information Technology and Bureau of Finance by the People's Government of Wuhu City (Wu Zheng Ban [2017] No. 9)
(Note 14)	Notice on Payment of Funding for Policies on Purchase of Research and Development Equipment in 2018 (Ke Ji [2018] No.97) (《關於下達2018年購置研發儀器設備等政策兌現資金計劃的通知》(科計[2018]97號)) issued by the Finance Bureau of Wuhu Economic and Technological Development Zone (蕪湖經濟技術開發區財政局)

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants (continued)

(1) Breakdown (continued)

1) Government grants relating to assets (continued)

Total-value method (continued)

Item	Description
(Note 15)	Notice on Several Policies of Wuhu for Accelerating the Construction of National Innovation Demonstration Zone in Wuhu (《關於加快推進蕪湖市國家自主創新示範區建設的若干政策規定》) issued by the Finance Bureau of Wuhu Economic and Technological Development Zone (蕪湖經濟技術開發區財政局)
(Note 16)	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 (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)) by the People's Government of Wuhu City (蕪湖市人民政府)
(Note 17)	Notice on Provision of the First Tranche of Special Financial Funds for Industrialization and Information Technology Development of Hangzhou City in 2018 (Hang Jing Kai Jing [2018] No.217) (《關於下達2018年第一批杭州市工業與信息化發展財政專項資金的通知》(杭經開經[2018]217號)) issued by Bureau of Economic Development and Bureau of Finance of Hangzhou Economic and Technology Zone (杭州經濟技術開發區經濟發展局及杭州經濟技術開發區財政局)

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants (continued)

(1) Breakdown (continued)

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

Item	Amount	Presented items	Description
Rewards under scientific and technological innovation and entrepreneurship policies in 2018	1,005,000.00	other gains	Notice on Rewards (Subsidies) under Scientific and Technological Innovation and Entrepreneurship Policies in the Development Zone in 2018 (Qian Tang Jing Ke [2019] No.72) (《關於下達2018年度經開區科技創新創業政策獎勵(補助)資金的通知》(錢塘經科[2019]72號)) published by the Science and Technology Bureau of Economic Development of Hangzhou Qiantang New Area (杭州錢塘新區經發科技局), Financial Bureau of Hangzhou Qiantang New Area (杭州錢塘新區財政金融局).
Rewards supporting the development of strong manufacturing industry of Anhui Province	700,000.00	other gains	Notice on Issuing Several Policies for Supporting the Development of Strong Manufacturing Industry by the People's Government of Anhui Province (Wan Zheng [2017] No.53) (《安徽省人民政府關於印發支持製造強省建設若干政策的通知》(皖政[2017]53號)) issued by the Department of Finance of Anhui Province (安徽省財政廳)
Allocation under the factor method for special funds for provincial-level key industrial development in 2018	500,000.00	other gains	Notice on Application for Allocation under Factor Method for Special Funds for Provincial-level Key Industrial Development in 2018 (Si Gong Xin Ban Lian [2018] No.184) (《關於組織申報2018年省級重點產業發展因素法專項資金的通知》(四工信辦聯[2018]184號)) issued by the Industry and Information Technology Bureau and the Finance Bureau of Siping City (四平市工業和信息化局、財政局)
Grants for research and development investment of enterprises in 2017	453,000.00	other gains	Several Policies on Promoting Scientific and Technological Innovation and Entrepreneurship of the Economic Development Zone (Hang Jing Kai Guan Fa [2017] No.305) (《開發區關於推進科技創新創業的若干政策》(杭經開管發[2017]305號)) issued by the Management Committee of the Economic Development Zone of Hangzhou (杭州經濟技術開發區管理委員會)

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants (continued)

(1) Breakdown (continued)

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

Item	Amount	Presented items	Description
Subsidies for eliminating coal-fired boilers in urban area of Siping City	414,285.71	other gains	Notice on Issuing Work Proposal Regarding Eliminating Coal-fired Boilers in Urban Area of Siping City by the People's Government of Siping City (Si Zheng Fa [2015] No.5) (《四平市人民政府關於印發四平市市區淘汰燃煤小鍋爐工作方案的通知》(四政發[2015]5號)) issued by the People's Government of Siping City (四平市人民政府)
Personnel stabilization subsidies	343,979.38	other gains	Announcement on Information of Enterprises Entitling to Personnel Stabilization Subsidies (《關於享受穩定崗位社保補貼信息的公示》) published by Hangzhou Employment Management Service Bureau (杭州市就業管理服務局), Notice on Provision of Unemployment Insurance to Support Enterprise in Employment Stabilization (Protection Initiative) (Ji Ren She Lian Zi [2018] No.54) (《關於實施失業保險援企穩崗“護航行動”的通知》(吉人社聯字[2018] 54 號)) issued by the Department of Human Resources and Social Security of Jilin Province (吉林省人力資源和社會保障廳), the Department of Finance of Jilin Province (吉林省財政廳) and the Social Insurance Administration of Jilin Province (吉林省社會保險事業管理局), and Notice on Relevant Issues Concerning the Provision of Unemployment Insurance to Support Enterprises in Employment Stabilization by the Department of Human Resources and Social Security of Anhui Province and the Department of Finance of Anhui Province (《安徽省人力資源和社會保障廳安徽省財政廳關於使用失業保險基金支付企業穩崗補貼有關問題的通知》) issued by the Department of Human Resources and Social Security of Anhui Province (安徽省人力資源和社會保障廳)
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 (義烏市失業保險穩就業企業社保費返還政策說明)

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

3. Government grants (continued)

(1) Breakdown (continued)

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

Item	Amount	Presented items	Description
Rewards for research and development activities by industry and production service enterprises	279,790.00	other gains	Certain Opinions on Promoting High-quality Development of the Real Economy (Tentative) (Yi Zheng Fa [2018] No.54) (《關於推動實體經濟高質量發展的若干意見(試行)》(義政發[2018]54號)) issued by the People's Government of Yiwu City
Subsidies for projects under key research and development plans in 2018	200,000.00	other gains	Notice on Projects under Key Research and Development Plans in 2018 (Ke Ji [2018] No.34) (《關於下達2018年度重點研究與開發計劃項目的通知》(科計[2018]34號)) published by the Anhui Province Department of Science and Technology (安徽省科技廳)
Product subsidies for the first set of technical equipment, key components and first batch of new materials in 2018 of the Inner Mongolia Autonomous Region	100,000.00	other gains	Tentative Administration Measures for Determination of First Set of Technical Equipment, Key Components and First Batch of New Materials of the Inner Mongolia Autonomous Region (Nei Jing Xin Fa [2017] No.41) (《內蒙古自治區技術裝備首台套、關鍵零部件及新材料首批次認定管理暫行辦法》(內經信發[2017]41號)) issued by the Commission of Economy and Information Technology of the Inner Mongolia Autonomous Region
Other government grants	<u>438,599.00</u>	other gains	
Subtotal	<u>4,773,048.54</u>		

- (2) Government grants credited to the current profit or loss for the period amounted to RMB15,214,440.01.

4. Interest expenses

Item	During the period	Corresponding period of the previous year
Interest expenses	4,407,765.65	1,830,859.94
Less: Capitalized interests		
Finance cost — interest expenses	4,407,765.65	1,830,859.94

NOTES TO THE FINANCIAL STATEMENTS

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6. OWNER'S EQUITY IN OTHER ENTITIES

(1) Owner's equity in significant subsidiaries

1. Particulars of significant subsidiaries

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

(1) Breakdown

Name of subsidiary	Percentage of shareholding of minority shareholders	Profit/loss contributed to minority shareholders of the current period	Declared dividends distribution to minority shareholders of the current period	Balance of minority shareholders' equity at the end of the period
Hangzhou New Shibao Electric Power Steering Co., Ltd.	10.00	-3,968,347.18		-4,554,573.00
Wuhu Sterling Steering System Co., Ltd.	42.11	-15,203,844.18		-2,642,140.20

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

(1) Assets and liabilities

Name of subsidiary	Current assets	Non-current assets	As at the end of the period			Total liabilities
			Total assets	Current liabilities	Non-current liabilities	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	207,560,997.44	71,908,263.47	279,469,260.91	324,331,017.77	683,973.10	325,014,990.87
Wuhu Sterling Steering System Co., Ltd.	40,308,241.83	47,501,197.83	87,809,439.66	88,923,340.17	5,160,476.59	94,083,816.76

Name of subsidiary	Current assets	Non-current assets	As at the beginning of the period			Total liabilities
			Total assets	Current liabilities	Non-current liabilities	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	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

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

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

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

(2) Profit/loss and cash flows

Name of subsidiary	Balance for the current period			Cash flows from operating activities
	Revenue	Net profit	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	260,416,727.13	-39,957,382.99	-39,957,382.99	2,830,367.33
Wuhu Sterling Steering System Co., Ltd.	28,645,856.67	-36,105,068.10	-36,105,068.10	-1,753,233.45

Name of subsidiary	Balance for the corresponding period last year			Cash flows from operating activities
	Revenue	Net profit	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	360,577,193.06	1,459,610.72	1,459,610.72	8,767,824.20
Wuhu Sterling Steering System Co., Ltd.	75,071,297.78	-9,320,058.96	-9,320,058.96	5,397,579.48

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	748,779,810.43	807,435,621.38
Including: Cash on hand and at bank	130,823,115.52	129,531,349.92
Short-term bank wealth management products	71,000,000.00	60,000,000.00
Accounts receivable	398,848,776.89	468,614,553.04
Financing receivables	141,483,082.75	142,065,764.04
Other receivables	6,624,835.27	7,223,954.38
Financial liabilities	585,261,314.40	459,695,879.77
Including: Bank borrowings	151,986,095.89	29,990,048.62
Notes payable	78,049,284.98	120,498,802.21
Accounts payable	353,444,997.15	308,232,664.17
Other payables	1,780,936.38	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

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(2) Credit risk

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

1. Credit risk management practices

(1) Assessment method on credit risk

The Company assesses whether there has been a significant increase in the credit risk on the relevant financial instruments since initial recognition at each balance sheet date. In determining whether there has been a significant increase in the credit risk since initial recognition, the Company has considered the reasonable and supportable information obtained without unnecessary additional costs or efforts, including qualitative and quantitative analysis, external credit risk ratings and forward-looking information that are based on historical data. Based on an individual financial instrument or a group of financial instruments with similar credit risk characteristics, and through comparing the risk of default on the financial instrument at the balance sheet date to that at the date of initial recognition, the Company determines the changes in the risk of default on the financial instrument during the expected life of the instrument.

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

- 1) Quantitative criteria mainly refers to the increase in remaining lifetime probability of default at the balance sheet date is considered significant comparing with the one at initial recognition;
- 2) Qualitative criteria mainly refers to the significant adverse change in debtor's operation or financial status, existing or expected changes in the technological, market, economic or legal environment that will have a significant adverse effect on the debtors' abilities to repay to the Company, etc.

(2) Definition of default and credit-impaired asset

The Company defines a financial asset as in default, which is fully aligned with the definition of credit-impaired, when the financial instrument meets one or more of the following conditions:

- 1) Significant financial difficulty of the debtor;
- 2) The debtor is in breach of the provisions of the contract which are binding on the debtors;
- 3) It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- 4) The creditor, for economic or contractual reasons relating to the debtor's financial difficulty, has granted to the debtor concessions that it would not otherwise consider under other circumstances.

2. ECL measurement

The key parameters of ECL measurement include probabilities of default (PD), losses given default (LGD) and exposures at default (EAD). The Company takes into account the quantitative analysis of historical statistics (such as ratings of the counterparty, manners of guarantees and types of collateral, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(2) Credit risk *(continued)*

3. The reconciliation of the balance of provision for losses on financial instruments at the beginning and the end of the period is detailed in Note 5(1)3, 5(1)4, 5(1)6 to the financial statements.

4. Credit risk exposure and credit risk concentration

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

(1) Cash on hand and at bank

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

(2) Accounts receivable

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

As the Company trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As at 31 December 2019, the Company had certain concentration of credit risk as 45.61% (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.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (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 maintains a balance between continuity of funding and flexibility through the use of several financing methods such as notes settlement and bank borrowings, as well as optimizing financing structure through the combination of long and short-term financing. The Company has obtained banking facilities from several commercial banks to fund the working capital requirements and capital expenditure.

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

1. Classification of financial assets based on the remaining maturity

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Cash on hand and at bank	130,823,115.52	130,823,115.52	130,823,115.52		
Short-term bank wealth management products	71,000,000.00	71,000,000.00	71,000,000.00		
Accounts receivable	398,848,776.89	398,848,776.89	398,848,776.89		
Financing receivables	141,483,082.75	141,483,082.75	141,483,082.75		
Other receivables	6,624,835.27	6,624,835.27	6,624,835.27		
Total	<u>748,779,810.43</u>	<u>748,779,810.43</u>	<u>748,779,810.43</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		
Accounts receivable	468,614,553.04	468,614,553.04	468,614,553.04		
Financing receivables	142,065,764.04	142,065,764.04	142,065,764.04		
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

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(3) Liquidity risk *(continued)*

2. Classification of financial liabilities based on the remaining maturity

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank and other borrowings	151,986,095.89	154,579,088.12	145,779,088.12	8,800,000.00	
Notes payable	78,049,284.98	78,049,284.98	78,049,284.98		
Accounts payable	353,444,997.15	353,444,997.15	353,444,997.15		
Other payables	1,780,936.38	1,780,936.38	1,780,936.38		
Total	<u>585,261,314.40</u>	<u>587,854,306.63</u>	<u>579,054,306.63</u>	<u>8,800,000.00</u>	

Item	Carrying value	Balance at the beginning of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank and other borrowings	29,990,048.62	30,488,798.62	21,366,798.62	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		
Other payables	974,364.77	974,364.77	974,364.77		
Total	<u>459,695,879.77</u>	<u>460,194,629.77</u>	<u>451,072,629.77</u>	<u>9,122,000.00</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(4) Market risk

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

1. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest-bearing financial instruments with fixed interest rate expose the Company to fair value interest risk, whereas interest-bearing financial instruments with variable interest rate expose the Company to cash flow interest rate. The Company determines the proportion of fixed rate and variable rate financial instruments based on market conditions, and maintains an appropriate portfolio of financial instruments through regular review and monitoring. The cash flow interest risk that the Company is exposed to mainly relates to the Company's bank borrowings at variable interest rates.

As of 31 December 2019, the Company's bank borrowings with floating interest rates were RMB53,000,000.00 (31 December 2018: RMB20,000,000.00) and will not have any significant impact on total profit and shareholders' equity of the Company, assuming other variables held constant and a 50 basis point change in interest rates.

2. Foreign exchange risk

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

For the Company's monetary assets and liabilities in foreign currencies at the end of the period, please see note 5(4)2 to the consolidated financial statements of notes to this financial statements.

(5) Capital risk management

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

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. As at 31 December 2019, the Company's gearing ratio was 2.62% (2018: -6.45%). The calculation is described as follow:

Item	Balance at the end of the period	Balance at the beginning of the period
Total borrowings	151,986,095.89	29,990,048.62
Less: Cash and cash equivalents	117,113,481.79	120,293,184.97
Net debt	34,872,614.10	-90,303,136.35
Equity	1,294,638,275.17	1,490,522,160.97
Total capital	1,329,510,889.27	1,400,219,024.62
Gearing ratio	2.62%	-6.45%

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

8. FAIR VALUE DISCLOSURE

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

Item	Fair value at the end of the period			Total
	Fair value measured at level 1	Fair value measured at level 2	Fair value measured at level 3	
Recurring fair value measurement				
1. Financial assets held for trading and other non-current financial assets				
(1) Financial assets at fair value through profit or loss				
Bank wealth management products			71,000,000.00	71,000,000.00
2. Financing receivables			141,483,082.75	141,483,082.75
Total assets measured at fair value on a recurring basis			212,483,082.75	212,483,082.75

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

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

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Related parties

1. Parent company

(1) Parent company

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(1) Related parties (continued)

2. Details of the Company's subsidiaries are set out in the note 6(1) to the financial statements.

3. Other related parties of the Company

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

(2) Related parties transactions

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

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

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

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

Related Party	Transaction Contents	Balance for the current period	Balance for the corresponding period last year
Beijing Jizhi Wuxian Technology Co., Ltd. (北京極智無限科技有限公司)	Water, electricity and etc.	93,884.29	308,963.26

2. Related-party lease

The Company as lessor

Name of lessee	Type of leased assets	Rental income recognised during the current period	Rental income recognised during the corresponding period last year
Beijing Jizhi Wuxian Technology Co., Ltd. (北京極智無限科技有限公司)	Buildings	711,428.57	183,962.26

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(2) Related parties transactions (continued)

3. Guarantee with related parties

The Company and its subsidiaries as the secured parties

Guarantor	Guaranteed amount (RMB0,000)	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fully fulfilled	Remarks
Zhejiang Shibao Holding Group Co., Ltd., Zhang Shi Quan, Zhang Shi Zhong, Zhang Lan Jun, Zhang Bao Yi, Tang Hao Han, Yiwu City He Feng Automobile Spare Parts Co., Ltd. (義烏市和豐汽車配件有限公司), Lei Wei Zhu and Wang Zheng Xiao	9,011.71	22 March 2019-15 November 2019	19 March 2020-31 March 2020	No	Short-term loans
Zhejiang Shibao Holding Group Co., Ltd., Zhang Shi Quan, Zhang Shi Zhong, Zhang Lan Jun, Zhang Bao Yi, Tang Hao Han, Yiwu City He Feng Automobile Spare Parts Co., Ltd., Lei Wei Zhu and Wang Zheng Xiao	586.00	24 July 2019-26 December 2019	25 January 2020-30 June 2020	No	Banker's acceptance

4. Remuneration of key management

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	3,782,043.89	5,609,747.32
Other key management	486,944.49	488,086.44
Total	4,268,988.38	6,097,833.76

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(2) Related parties transactions (continued)

5. Remuneration of Directors and Supervisors

Item	Fee	Balance for the current period					Total
		Salaries, bonus, allowances and subsidies	Housing funds	Pension insurance	Other social insurance	Benefits in kind	
Executive Directors:		1,931,860.14	116,016.00	90,017.60	81,016.52		2,218,910.26
Zhang Bao Yi		558,500.04	36,186.00	22,504.40	20,254.13		637,444.57
Tang Hao Han		500,000.10	35,004.00	22,504.40	20,254.13		577,762.63
Zhang Lan Jun		399,999.96	36,186.00	22,504.40	20,254.13		478,944.49
Liu Xiao Ping		473,360.04	8,640.00	22,504.40	20,254.13		524,758.57
Non-executive Directors:		849,666.00		14,028.00	7,432.82		871,126.82
Zhang Shi Quan		600,000.00					600,000.00
Zhang Shi Zhong		249,666.00		14,028.00	7,432.82		271,126.82
Independent non-executive Directors:	243,866.76						243,866.76
Guo Kong Hui	60,000.12						60,000.12
Shum Shing Kei	123,866.64						123,866.64
Lin Yi	60,000.00						60,000.00
Supervisors:		424,200.05		12,600.00	11,340.00		448,140.05
Du Min		150,000.00					150,000.00
Shen Song Sheng		49,200.06					49,200.06
Wu Lang Ping		176,999.99		12,600.00	11,340.00		200,939.99
Yang Di Shan		24,000.00					24,000.00
Feng Yan		24,000.00					24,000.00
Total	243,866.76	3,205,726.19	116,016.00	116,645.60	99,789.34		3,782,043.89

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(2) Related parties transactions *(continued)*

5. Remuneration of Directors and Supervisors *(continued)*

Item	Fee	Balance for the corresponding period last year					Total
		Salaries, bonus, allowances and subsidies	Housing funds	Pension insurance	Other social insurance	Benefits in kind	
Executive Directors:		3,750,399.03	108,630.00	102,644.16	92,381.76		4,054,054.95
Zhang Bao Yi		500,000.04	33,330.00	25,661.04	23,095.44		582,086.52
Tang Hao Han		500,000.04	33,330.00	25,661.04	23,095.44		582,086.52
Zhang Lan Jun		399,999.96	33,330.00	25,661.04	23,095.44		482,086.44
Liu Xiao Ping		2,350,398.99	8,640.00	25,661.04	23,095.44		2,407,795.47
Non-executive Directors:		879,996.06		16,833.60	10,311.58		907,141.24
Zhang Shi Quen		600,000.00					600,000.00
Zhang Shi Zhong		249,996.00		16,833.60	10,311.58		277,141.18
Zhu Jie Rong		30,000.06					30,000.06
Independent non-executive Directors:	231,423.13						231,423.13
Zhang Hong Zhi	15,000.00						15,000.00
Guo Kong Hui	60,000.12						60,000.12
Shum Shing Kei	126,423.01						126,423.01
Lin Yi	30,000.00						30,000.00
Supervisors:		388,400.00		15,120.00	13,608.00		417,128.00
Du Min		150,000.00					150,000.00
Shen Song Sheng		44,400.12					44,400.12
Wu Lang Ping		145,999.88		15,120.00	13,608.00		174,727.88
Yang Di Shan		24,000.00					24,000.00
Feng Yan		24,000.00					24,000.00
Total	231,423.13	5,018,795.09	108,630.00	134,597.76	116,301.34		5,609,747.32

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(2) Related parties transactions (continued)

6. Remuneration of five highest paid employees

During the year, the five highest paid employees include four (2018: four) Directors and details of their remunerations are set out in note 9(2)5 to the financial statements. The remuneration of the remaining one (2018: one) employees who are not director is as follows:

Item	Balance for the current period	Balance for the corresponding period last year
Salaries, bonus allowances and subsidy	1,231,840.95	1,983,032.92
Housing provident fund		10,800.00
Total	1,231,840.95	1,993,832.92

The remuneration range of one (2018: one) employee who is not director is as follows:

Item	Number for the current period	Number for the corresponding period last year
HK\$1,000,001–2,000,000	1	
HK\$2,000,001–3,000,000		1

(3) Receivable and payable with related parties

1. Receivables from related parties

Item	Related Party	Balance at the end of the period		Balance at the beginning of the period	
		Carrying amount	Provision for bad debts	Carrying amount	Provision for bad debts
Accounts receivable	Beijing Jizhi Wuxian Technology Co., Ltd. (北京極智無限科技有限公司)			247,075.00	
Sub-total				247,075.00	

2. Payables to related parties

Item	Related party	Balance at the end of the period	Balance at the beginning of the period
Notes payable	Zhejiang Shibao (Note)	3,334,000.00	4,460,000.00
	Hangzhou Shibao (Note)	2,000,000.00	170,000.00
	Hangzhou New Shibao (Note)		31,114,000.00
	Jilin Shibao (Note)		5,300,000.00
	Beijing Autonics (Note)	10,435,680.60	4,434,285.32
	Wuhu Sterling (Note)		200,000.00
Sub-total		15,769,680.60	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 and the subsidiaries Hangzhou Shibao and Beijing Autonics after received such banker's acceptances, have been endorsed to other parties.

NOTES TO THE FINANCIAL STATEMENTS

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10. COMMITMENTS AND CONTINGENCIES

(1) Major commitments

Item	Balance at the end of the period	Balance at the beginning of the period
Material contracts in relation to acquisition of assets contracted but not recognized	130,217,773.67	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

(1) Resolution on Termination of Some Investment Projects Financed by Proceeds from Private Placement and Use Relevant Proceeds from Private Placement to Permanently Replenish the Working Capital

On 31 October 2019, the sixth session of the Board of the Company considered and approved the written Resolution on Termination of Some Investment Projects Financed by Proceeds from Private Placement and Use Relevant Proceeds from Private Placement to Permanently Replenish the Working Capital. It was the Company's original intention to apply the proceeds of RMB200 million from the non-public issuance of A Shares in 2014 to finance the "precious casting and processing of automotive components project". Given the recent decline in the vehicle market and the vehicle parts market and in light of the actual operation performance of the Company, the Company, after serious consideration, proposed to terminate the implementation of the "precious casting and processing of automotive components project", one of the projects of investment of raised funds from the non-public issuance of A Shares in 2014, and proposed to use all of the remaining raised funds of the project and the interest accrued thereon to permanently replenish the working capital for the purpose of production and operation of the Company, so as to improve the efficiency in using raised funds. According to the poll results of the extraordinary general meeting held on 13 January 2020, the Resolution on Termination of Some Investment Projects Financed by Proceeds from Private Placement and Use Relevant Proceeds from Private Placement to Permanently Replenish the Working Capital was duly passed by the Shareholders.

(2) Distribution of profits after the balance sheet date

Pursuant to the profit distribution proposal for 2019 passed at the 11th meeting of the sixth session of the Board of the Company held on 23 April 2020, the Company will not declare cash dividend, issue bonus Shares or increase capital by transferring from capital reserve fund. The aforementioned profit distribution proposal is subject to approval at the annual general meeting.

(3) The Company expects that the outbreak of the COVID-19 epidemic and the prevention and control measures taken to fight against the epidemic will impose certain impacts on the Company and the industry, and the magnitude of the impact will depend on how long the epidemic will last and the implementation of the prevention and control measures. The Company will continue to keep a close watch on the development of the epidemic, and evaluate and take proactive measures to mitigate its impacts on the financial condition, operating results and other aspects of the Company. As of the date on which these financial statements were approved for issue, we are not aware of any material adverse impact.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

12. OTHER IMPORTANT MATTERS

(1) Segment Information

1. Operating segment

As the operations and assets of both the Company and its subsidiaries are related to automotive steering system and components and are mainly located in Mainland China where 93.27% of the revenue was generated from domestic sales, no detailed segment information is required to be disclosed.

2. Information about major customers

(1) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company in 2019 is as follows:

Name of customer	Revenue	Proportion to total revenue of the Company (%)
Zhejiang Yuanjing Auto Parts Co., Ltd.	216,454,938.30	22.03

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

Name of customer	Revenue	Proportion to total revenue of the Company (%)
Zhejiang Yuanjing Auto Parts Co., Ltd.	219,983,398.30	19.41

(2) 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	365,639,465.63	383,032,610.92	634,787,447.84	467,985,750.81
Total assets less current liabilities	1,349,777,082.44	1,094,572,283.74	1,555,825,449.97	1,109,895,382.51

(3) Other major transactions and events that have an impact on investors' decisions

1. Costs borne by the subsidiaries due to product quality

Due to the quality defects of certain batches of steering gear assembly products provided to Daimler AG, Hangzhou Shibao Steering Gear Co., Ltd., a subsidiary of the Company, was liable to bear the costs incurred for replacement of the steering gears and repair of the vehicles amounting to a total of Euro2,840,600 (equivalent to RMB22,290,400), which was charged in profit or loss. As of 31 December 2019, Euro1,440,600 has been paid while the balance of Euro1,400,000 was still outstanding.

2. As at the date of the approval of this financial report, both the Company and its subsidiaries have not completed the procedures for the settlement of the Enterprise Income Tax for 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

13. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

(1) Notes to the Balance Sheet of the Parent Company

1. Accounts receivable

(1) Breakdown

1) Breakdown by types

Types	Balance at the end of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Bad debt provision on individual basis	292,979.00	0.47	292,979.00	100.00	
Provision for bad debt by groups	61,656,500.60	99.53	317.92		61,656,182.68
Total	61,949,479.60	100.00	293,296.92	0.47	61,656,182.68

Types	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Bad debt provision on individual basis	292,979.00	0.49	292,979.00	100.00	
Provision for bad debt 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	59,046,603.56

2) Accounts receivable with bad debt provision on individual basis at the end of the period

Name	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Receivables from Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd. (贛州江環汽車製造有限公司) and etc.	292,979.00	292,979.00	100.00	The amount was not expected to be recovered
Sub-total	292,979.00	292,979.00	100.00	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

1. Accounts receivable (continued)

(1) Breakdown (continued)

3) Accounts receivable with bad debt provision based on group

Item	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Aging group	353,240.70	317.92	0.09
Group of related dealings within the scope of combination	61,303,259.90		
Sub-total	61,656,500.60	317.92	

4) Accounts receivable with bad debt provision based on aging group

Age	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year	353,240.70	317.92	0.09
Sub-total	353,240.70	317.92	0.09

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

1. Accounts receivable (continued)

(2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for bad debts	Provision (%)	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year	6,063,192.12	317.92	0.01	15,473,274.36	1.92	
1-2 years	15,470,077.36			17,924,758.82		
2-3 years	17,924,758.82			25,648,572.30		
Over 3 years	22,491,451.30	292,979.00	1.30	292,979.00	292,979.00	100.00
Total	61,949,479.60	293,296.92	0.47	59,339,584.48	292,980.92	0.49

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.

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) Change in provision for bad debts

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	
Bad debt provision on individual basis	292,979.00							292,979.00
Provision for bad debt by groups	1.92	316.00						317.92
Sub-total	292,980.92	316.00						293,296.92

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

1. Accounts receivable (continued)

(5) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
Wuhu Sterling (蕪湖世特瑞轉向系統有限公司)	56,528,558.48	91.25	
Hangzhou Shibao Auto Steering Gear Co., Ltd (杭州世寶汽車方向機有限公司)	4,774,701.42	7.71	
Zhejiang Keli Vehicle Control System Co., Ltd.	319,350.00	0.52	287.42
Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd. (贛州江環汽車製造有限公司)	125,000.00	0.20	125,000.00
Hubei San Huan Special Vehicle Co., Ltd. (湖北三環專用汽車有限公司)	43,400.00	0.07	43,400.00
Sub-total	61,791,009.90	99.75	168,687.42

2. Other receivables

(1) Breakdown

1) Breakdown by types

Type	Balance at the end of the period				Carrying amount
	Carrying amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision (%)	
Provision for bad debt by groups	375,049,048.10	100.00			375,049,048.10
Including: other receivables	375,049,048.10	100.00			375,049,048.10
Total	375,049,048.10	100.00			375,049,048.10

Types	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	%	Amount	%	
Provision for bad debt by groups	373,291,338.80	100.00			
Including: other receivables	373,291,338.80	100.00			373,291,338.80
Total	373,291,338.80	100.00			373,291,338.80

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

2. Other receivables (continued)

(1) Breakdown (continued)

2) Other receivables with provision for bad debt by groups

Group	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Deposit	350.00		
Related party dealings within the scope of combination	374,135,506.90		
Reserves and etc.	913,191.20		
Sub-total	<u>375,049,048.10</u>		

(2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for bad debts	Provision (%)	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year	46,756,663.23			43,182,374.93		
1-2 years	32,868,533.12			33,144,849.35		
2-3 years	33,116,378.29			136,031,146.92		
Over 3 years	262,307,473.46			160,932,967.60		
Sub-total	<u>375,049,048.10</u>			<u>373,291,338.80</u>		

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

(4) Classification by nature of other receivables

Nature of the receivables	Balance at the end of the period	Balance at the beginning of the period
Other receivables		
Current accounts	374,135,506.90	373,015,681.73
Security deposits	350.00	10,100.00
Imprest	454,831.01	7,364.67
Others	458,360.19	258,192.40
Total	<u>375,049,048.10</u>	<u>373,291,338.80</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

2. Other receivables (continued)

(5) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Age	Percentage to the balance of other receivables (%)	Provision for bad debts
Jilin Shibao	Current account	138,591,094.38	Within 1 year, 1-2 years, 2-3 years, over 3 years	36.95	
Beijing Autonics	Current account	121,247,190.24	Within 1 year, 1-2 years, 2-3 years, over 3 years	32.33	
Hangzhou New Shibao	Current account	114,297,222.28	Within 1 year, 1-2 years, 2-3 years, over 3 years	30.48	
Panfar Construction Group Co., Ltd. (八方建設集團有限公司)	Other	458,360.19	1-2 years	0.12	
Guo Zhiqiang	Imprest	157,600.00	Within 1 year	0.04	
Sub-total		374,751,467.09		99.92	

3. Long-term equity investments

(1) Breakdown

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

(2) Investment in subsidiaries

Investees	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Provision for impairment during the period	Provision for impairment at the end of the period
Hangzhou Shibao	70,461,807.49			70,461,807.49		
Hangzhou New Shibao	42,000,000.00			42,000,000.00		
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		
Sub-total	185,159,214.87			185,159,214.87		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

3. Long-term equity investments (continued)

(3) Investment in non-public listed companies and public listed companies

Item	Balance at the end of the period	Balance at the beginning of the period
Investment in non-public listed companies	185,159,214.87	185,159,214.87
Total	185,159,214.87	185,159,214.87

(2) Notes to the Income Statement of the Parent Company

1. Revenue/cost of sales

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Revenue from main business	40,415,201.50	39,866,752.64	40,555,517.94	36,651,259.74
Revenue from other business	4,435,391.91	2,056,863.14	1,212,073.60	405,229.09
Total	44,850,593.41	41,923,615.78	41,767,591.54	37,056,488.83

2. Research and development expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	1,160,851.07	2,540,965.82
Direct investment	1,384,271.21	1,013,579.99
Energy costs	520,718.58	116,000.00
Depreciation of fixed assets	663,476.52	295,191.76
Others	122,557.17	46,620.00
Total	3,851,874.55	4,012,357.57

3. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Interest income from loans	3,933,466.98	
Investment gains from holding of financial instruments	238,640.47	2,885,996.37
Including: financial assets classified as FVTPL	238,640.47	2,885,996.37
Total	4,172,107.45	2,885,996.37

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

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

(3) Supplemental information on the statement of cash flows of the Parent Company

Supplemental information	Balance for the current period	Balance for the corresponding period last year
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	-15,323,098.77	4,672,563.33
Add: Provision for impairment to assets	847,820.79	96,008.69
Depreciation of fixed assets, oil and gas assets and production	8,573,662.44	2,018,616.31
Amortization of intangible assets	843,937.76	894,674.12
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets (“-” for gains)	800,483.51	-11,813,620.08
Losses on write-off of fixed assets (“-” for gains)		
Losses on changes of fair value (“-” for gains)		
Financial expenses (“-” for gains)	2,234,202.94	-3,470,262.40
Investment losses (“-” for gains)	-4,172,107.45	-2,885,996.37
Decrease in deferred income tax assets (“-” for increase)	-189,814.35	-24,002.18
Increase in deferred income tax liabilities (“-” for decrease)		
Decrease in inventories (“-” for increase)	675,224.73	-2,958,589.54
Decrease in operational receivables (“-” for increase)	-4,373,213.45	-12,644,242.01
Increase in operational payables (“-” for decrease)	11,212,852.11	-5,747,441.49
Others		
Net cash flows from operating activities	1,129,950.26	-31,862,291.62
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	25,194,396.30	37,383,008.66
Less: Cash at the beginning of the period	37,383,008.66	16,695,331.03
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	-12,188,612.36	20,687,677.63

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

14. OTHER IMPORTANT MATTERS

(1) Non-recurring gain and loss

1. Breakdown

Item	Amount	Description
Gain or loss on disposal of non-current assets, inclusive of provision for assets impairment write-off	531,164.21	
Unauthorised approvals or items without duly approved documents, or occasional tax rebate or tax credits	27,000.00	
Government grants (except for government grants which are closely related to the Company's ordinary business and conforms with the national policies as well as standard amount and quantities or continuous government grants) recognized in gains or losses during the current period	15,214,440.01	
Fees for usage of funds received from non-financial enterprises recognized in profits and losses during the current period		
Investment costs paid by the investor in acquiring the subsidiaries, associates and joint ventures less the gain derived from the fair value of the investee's identifiable net assets at the time of investment		
Profit and loss from exchange of non-monetary assets		
Gains or losses from discretionary investment or asset management	1,209,913.87	
Impairment provisions for assets due to force majeure factors such as natural disasters		
Gains or losses from debt restructuring		
Corporate restructuring fees such as staff resettlement expenses, consolidation charges, etc.		
Gains or losses arising from transactions at unfair trading prices over their fair value		
Net gains or losses from the subsidiary formed by merging jointly controlled enterprises from the beginning of the reporting period to the date of merger attributable to the current period		
Gains or losses from contingency items unrelated to the normal business operations of the Company		
Change in gains or losses generated from held for trading financial assets, change in fair value generated from trading financial liabilities, investment gains from disposal of trading financial assets and trading financial liabilities and financial assets available for sale, other than effective hedging activities associated with normal business operations of the Company		
Reversal of impairment provisions for receivables subject to individual impairment test		
Gains or losses from external entrusted loans		
Gains or losses from changes in fair value of investment properties adopting fair value method for follow-up measurements		
Effect on gains and losses for the current period from one-off adjustment to gains and losses for the period according to the requirements of the tax and accounting laws and regulations		
Discretionary fee income received from discretionary operations		
Other non-operating income and expenses apart from those stated above	606,267.85	
Other gains and losses items conforming with the definition of non-recurring gains or losses		
Sub-total	17,588,785.94	
Less: Effect on enterprise income tax increase/(decrease)		
Effect on interest of minority shareholders (after tax)	838,198.51	
Items of non-recurring gains or losses attributable to equity holders of the parent	16,750,587.43	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

14. OTHER IMPORTANT MATTERS (continued)

(2) Return on net assets and earnings per share

1. Details

Profit during the period	Weighted average return on net assets ratio (%)	Earnings per share (RMB/share)	
		Basic	Diluted
Net profit attributable to the holders of the Company's ordinary shares	-12.71	-0.2238	-0.2238
Net profit, after deduction of non-recurring gain and loss, attributable to the holders of the Company's ordinary shares	-13.92	-0.2450	-0.2450

2. Calculation of weighted average return on net assets ratio

Item	No.	Balance for the current period
Net profit attributable to ordinary shareholders of the Company	A	-176,711,694.44
Non-recurring gain and loss	B	16,750,587.43
Net profit net of non-recurring gain and loss attributable to ordinary shareholders of the Company	C=A-B	-193,462,281.87
Net assets at the beginning of the period attributable to ordinary shareholders of the Company	D	1,478,546,682.81
Additions to net assets as a result of an issue of shares, conversion of loans, etc. attributable to ordinary shareholders of the Company	E	
Number of months from the month after increase in assets to end of reporting period	F	
Decrease in net assets net of repurchase, bonus, etc. attributable to ordinary shareholders of the Company	G	
Number of months from the month after decrease in assets to end of reporting period	H	
Others Other items increase net assets	I	
Number of months from the month after change in assets to end of reporting period	J	
Number of months during the reporting period	K	12.00
Weighted average net assets	$L = D + A/2 + E \times F/K - G \times H/K \pm I \times J/K$	1,390,190,835.59
Weighted average return on net assets ratio	M=A/L	-12.71%
Weighted average return on net assets ratio, after deduction of non-recurring gain and loss	N=C/L	-13.92%

NOTES TO THE FINANCIAL STATEMENTS

For the year 2019 | (RMB Yuan) | (English translation for reference only)

14. OTHER IMPORTANT MATTERS (continued)

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

3. Calculations of basic and diluted earnings per share

(1) Calculations of basic earnings per share

Item	Number	Balance for the current period
Net profits attributable to the ordinary shareholders of the Company	A	-176,711,694.44
Non-recurring profit/loss	B	16,750,587.43
Net profits after deducting non-recurring profit/loss attributable to the ordinary shareholders of the Company	C=A-B	-193,462,281.87
Total number of shares at beginning	D	789,644,637.00
Increase in number of shares due to transfer from reserves to capital or distribution of scrip dividend	E	
Increase in number of shares due to issuance of new shares or convertibles	F	
Number of months calculated from the month after increase in shares to end of reporting period	G	
Decrease in number of shares due to repurchase	H	
Number of months calculated from the month after decrease in shares to end of reporting period	I	
Reduction in number of shares during the reporting period	J	
Number of months in the reporting period	K	12.00
Weighted average number of issued ordinary shares	$L=D+E+F \times G/K-H \times I/K-J$	789,644,637.00
Basic earnings per share	$M=A/L$	-0.2238
Basic earnings per share after deducting non-recurring profit/loss	$N=C/L$	-0.2450

(2) Calculations of diluted earnings per share are the same as the calculations of basic earnings per share.

(3) Differences in preparation of financial statements between domestic and overseas accounting standards

The financial statements of the Company were prepared in accordance with Accounting Standards of Business Enterprises. In 2011, according to "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" issued by the Hong Kong Stock Exchange in December 2010, the Company decided to prepare the financial statements in accordance with Accounting Standards of Business Enterprises for information disclosure on the Hong Kong Stock Exchange.

“A Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued in China and listed on Shenzhen Stock Exchange, and are subscribed for and traded in RMB
“Articles of Association”	Articles of association of the Company
“Audit Committee”	Audit committee of the Company
“BAIC Motor”	Beijing Automobile Group Company Limited
“Beijing Autonics”	Beijing Autonics Technology Co., Ltd., a wholly-owned subsidiary of the Company since 30 November 2016
“Beijing Jizhi”	Beijing Jizhi Wuxian Technology Limited, a subsidiary of Shibao Holding
“Board”	Board of Directors of the Company
“Changan Group”	China Changan Automobile Group Company Limited
“Chery Auto”	Chery Automobile Co., Ltd.
“China Accounting Standards for Business Enterprises or Accounting Standards for Business Enterprises or ASBE”	Financial reporting standards and interpretations for business enterprises issued by the China Accounting Standards Committee of the China Ministry of Finance
“Company or Zhejiang Shibao”	Zhejiang Shibao Company Limited
“Corporate Governance Code or CG Code”	Corporate Governance Code and Corporate Governance Report, Appendix 14 to the Listing Rules of Hong Kong Stock Exchange
“CSRC”	China Securities Regulatory Committee of PRC
“Daimler Group”	Daimler AG
“Director(s)”	Director(s) of the Company
“Dongfeng Group”	Dongfeng Motor Company
“Erdos Sterling”	Erdos Sterling Steering System Co., Ltd., a wholly-owned subsidiary of Wuhu Sterling
“FAW Group”	FAW Group Corporation
“Geely Automobile”	Zhejiang Geely Holding Group Co., Ltd.
“Group”	The Company and its subsidiaries
“H Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued overseas and listed on Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars

GLOSSARY

(English translation for reference only)

“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“JAC”	Anhui Jianghuai Automobile Group Co., Ltd.
“Jilin Shibao”	Jilin Shibao Machinery Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company
“King Long Motor”	Xiamen King Long Motor Group Co., Ltd.
“Listing Rules”	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules of Hong Kong Stock Exchange
“Nomination Committee”	Nomination committee of the Company
“PRC or China or Mainland China”	People’s Republic of China
“Remuneration Committee”	Remuneration committee of the Company
“Reporting Period or This Period”	1 January 2019 to 31 December 2019
“RMB”	Renminbi, the lawful currency of the PRC
“Saipa Automotive”	Iran Saipa Automotive Group
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	A Share(s) and/or H Share(s)
“Shareholder(s)”	Shareholder(s) of the Company
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange of the PRC
“Shibao Holding or Ultimate Holding Company or Controlling Shareholder”	Zhejiang Shibao Holding Group Co., Ltd.
“Supervisor(s)”	Supervisor(s) of the Company
“Supervisory Committee”	Supervisory committee of the Company
“Wuhu Sterling”	Wuhu Sterling Steering System Co., Ltd., a subsidiary controlled by the Company