



**浙江世寶股份有限公司**

**ZHEJIANG SHIBAO COMPANY LIMITED\***

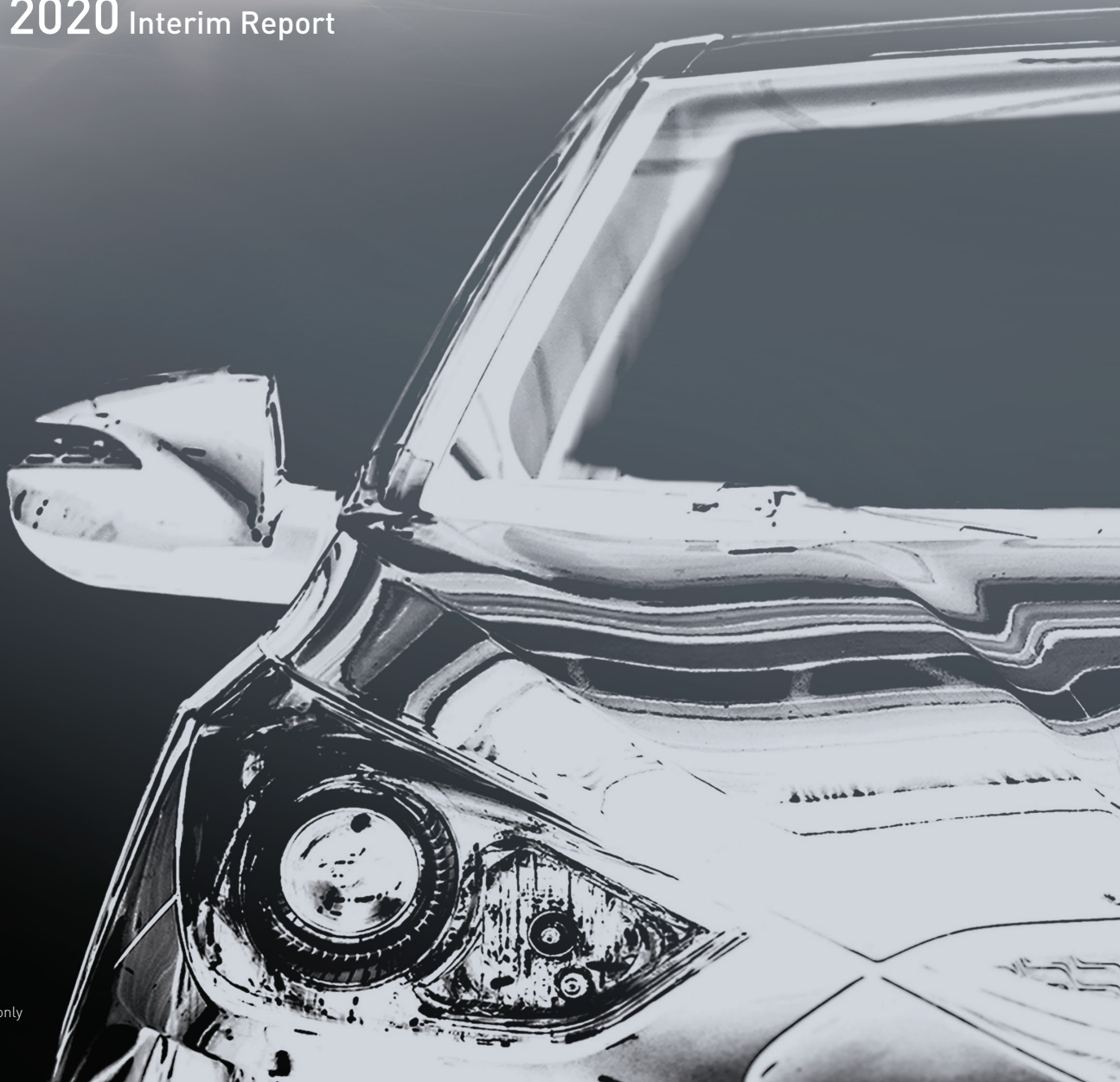
(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code : 1057

# STEERING

the Future

2020 Interim Report



\*For identification purposes only

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# CORPORATE INFORMATION

(English translation for reference only)

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

\* For identification only



# CORPORATE INFORMATION

(English translation for reference only)

## Principal Place of Business in Hong Kong

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

## PRC Law

*Legal Advisers*  
King & Wood Mallesons Shanghai Office  
17th Floor, One ICC  
999 Middle Huaihai Road  
Xuhui District, Shanghai, China

## Auditors

Pan-China Certified Public Accountants LLP  
29th Floor, Block B, China Resources Building  
1366 Qianjiang Road  
Hangzhou, Zhejiang Province, China

## Principal Bankers

Agricultural Bank of China, Yiwu Branch  
– Fotang Sub-branch  
85 Jianshe Road, Fotang, Yiwu, Zhejiang Province, China

Bank of China Limited  
– Banking Department of Siping Sub-branch  
No. 488 Yingxiong Avenue, Siping, Jilin Province, China

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

China CITIC Bank  
– Hangzhou Economic and Technology Development Zone Sub-branch  
Building 2 Singapore Hangzhou Technology Zone, 6th Avenue  
Hangzhou Economic and Technology Development Zone  
Hangzhou, Zhejiang Province, China

China Zheshang Bank Co., Ltd.  
– Hangzhou Xiasha Sub-branch  
No. 226 Shangsha Road  
Hangzhou Economic and Technological Development Zone  
Hangzhou, Zhejiang Province, China

Erdos Rural Commercial Bank  
– Dong Huan Road Sub-branch  
Ground Floor, Complex Building of Inter-city Bus Station, Dong Huan Road,  
Dong Sheng District, Erdos, China

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

# CORPORATE INFORMATION

(English translation for reference only)

## Hong Kong H Share Registrar and Transfer Office

## Contact Information

## Place of Listing

## Website

Industrial and Commercial Bank of China Limited  
— Hangzhou Economic and Technological Development Zone Sub-branch  
No. 5, 6th Avenue Hangzhou Economic and Technological Development Zone  
Hangzhou, Zhejiang Province, China

Industrial and Commercial Bank of China, Beijing Branch  
— Zi Zhu Yuan Road Sub-branch  
No. 10, Zhong Guan Cun South Road Jia, Hai Dian District, Beijing, China

Industrial and Commercial Bank of China, Siping Branch  
— Zhongyang Dong Lu Sub-branch  
141 Nanyijing Jie, Siping, Jilin Province, China

Industrial and Commercial Bank of China, Yiwu Branch  
— Yiwu Sub-branch  
128 Huangyuan Road, Yiwu, Zhejiang Province, China

Hua Xia Bank Co., Limited  
— Yiwu, Sub-branch  
No. 366 Bin Wang Lu, Yiwu, Zhejiang Province  
China

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

## Corporate communication/Investor relations

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

## Company secretarial services

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

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

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

# KEY ACCOUNTING INFORMATION AND FINANCIAL INDICATORS

Item	January-June 2020	January-June 2019	Change
Operating revenue	<b>487,253,473.33</b>	450,513,067.17	8.16%
Net profit attributable to shareholders of listed company	<b>17,075,548.93</b>	-18,428,119.21	192.66%
Net profit after non-recurring gains and losses attributable to shareholders of listed company	<b>8,069,915.87</b>	-25,656,039.80	131.45%
Net cash flows from operating activities	<b>46,602,751.59</b>	-7,143,272.74	752.40%
Basic earnings per share (RMB/Share)	<b>0.0216</b>	-0.0233	192.70%
Diluted earnings per share (RMB/Share)	<b>0.0216</b>	-0.0233	192.70%
Return on weighted average net assets	<b>1.30%</b>	-1.25%	2.55%

Item	30 June 2020	31 December 2019	Change
Total assets	<b>1,973,024,269.38</b>	1,975,196,092.31	-0.11%
Net assets attributable to shareholders of listed company	<b>1,318,910,537.30</b>	1,301,834,988.37	1.31%

# UNAUDITED INTERIM FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

The Board of the Company is pleased to announce the unaudited consolidated financial statements of the Company for the six months ended 30 June 2020 prepared by the Company in accordance with CASBE, together with the comparative figures for the corresponding period in 2019. The accounting information contained in this interim report has not been audited but has been reviewed by the Audit Committee of the Company.

## CONSOLIDATED BALANCE SHEET

30 June 2020

Item	30 June 2020	31 December 2019
<b>Current Assets:</b>		
Cash on hand and at bank	201,711,146.03	130,823,115.52
Financial assets held for trading	780,000.00	71,000,000.00
Accounts receivable	384,136,327.61	398,848,776.89
Financing receivables	155,612,859.80	141,483,082.75
Prepayments	5,722,457.01	6,563,922.61
Other receivables	6,978,917.30	6,624,835.27
Inventories	216,167,023.52	216,838,013.54
Other current assets	15,733,825.92	18,876,728.92
Total current assets	986,842,557.19	991,058,475.50
<b>Non-current Assets:</b>		
Investment property	37,141,869.09	45,608,029.75
Fixed assets	695,712,836.66	716,268,848.51
Construction in progress	138,460,489.35	118,148,294.12
Intangible assets	81,523,496.89	83,246,762.75
Deferred income tax assets	13,203,047.00	11,644,197.00
Other non-current assets	20,139,973.20	9,221,484.68
Total non-current assets	986,181,712.19	984,137,616.81
<b>Total Assets</b>	<b>1,973,024,269.38</b>	<b>1,975,196,092.31</b>
<b>Current Liabilities:</b>		
Short-term borrowings	126,133,929.93	143,186,095.89
Notes payable	105,854,576.59	78,049,284.98
Accounts payable	309,236,141.41	353,444,997.15
Receipts in advance	2,914,522.51	5,180,624.33
Contract liabilities	20,203,172.32	3,296,944.39
Staff costs payable	15,107,003.36	12,942,278.97
Tax payable	4,789,065.02	2,615,274.29
Other payables	1,370,282.89	1,780,936.38
Other current liabilities	28,779,709.07	24,922,573.49
Total current liabilities	614,388,403.10	625,419,009.87
<b>Non-current Liabilities:</b>		
Long-term borrowings	8,800,000.00	8,800,000.00
Deferred income	38,800,411.45	43,582,481.56
Deferred income tax liabilities	2,581,198.59	2,756,325.71
Total non-current liabilities	50,181,610.04	55,138,807.27
Total liabilities	664,570,013.14	680,557,817.14

# CONSOLIDATED BALANCE SHEET

30 June 2020 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2020	31 December 2019
<b>Shareholders' Equity:</b>		
Share capital	<b>789,644,637.00</b>	789,644,637.00
Capital reserve	<b>182,334,093.78</b>	182,334,093.78
Surplus reserve	<b>135,379,620.20</b>	135,379,620.20
Retained earnings	<b>211,552,186.32</b>	194,476,637.39
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Equity attributable to equity holders of the parent	<b>1,318,910,537.30</b>	1,301,834,988.37
	<hr/>	<hr/>
Minority interests	<b>-10,456,281.06</b>	-7,196,713.20
	<hr/>	<hr/>
Total equity	<b>1,308,454,256.24</b>	1,294,638,275.17
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<b>Total Liabilities and Equity</b>	<b>1,973,024,269.38</b>	1,975,196,092.31
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# BALANCE SHEET OF THE PARENT COMPANY

30 June 2020 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2020	31 December 2019
<b>Current Assets:</b>		
Cash on hand and at bank	91,602,174.56	26,952,396.30
Financial assets held for trading		70,000,000.00
Accounts receivable	57,463,081.75	61,656,182.68
Financing receivables	1,967,986.56	100,000.00
Prepayments	702,058.96	1,379,388.83
Other receivables	378,081,968.16	375,049,048.10
Inventories	11,511,366.16	9,800,764.24
Other current assets	7,477,809.30	9,259,046.14
Total current assets	548,806,445.45	554,196,826.29
<b>Non-current Assets:</b>		
Long-term receivables	288,000,000.00	288,000,000.00
Long-term equity investments	185,159,214.87	185,159,214.87
Investment property	23,494,999.86	24,233,182.56
Fixed assets	114,878,900.52	115,934,448.50
Construction in progress	94,043,114.59	67,873,473.29
Intangible assets	29,624,229.80	29,999,762.48
Deferred income tax assets	284,915.72	287,091.12
Other non-current assets	3,602,980.46	52,500.00
Total non-current assets	739,088,355.82	711,539,672.82
<b>Total Assets</b>	<b>1,287,894,801.27</b>	<b>1,265,736,499.11</b>
<b>Current Liabilities:</b>		
Short-term borrowings	123,129,614.86	143,186,095.89
Notes payable	6,550,000.00	5,860,000.00
Accounts payable	19,260,438.22	15,096,104.26
Receipts in advance	2,914,522.51	3,928,598.33
Contract liabilities	4,867.26	4,867.26
Staff costs payable	1,321,970.79	1,448,585.24
Tax payable	1,231,055.95	57,512.09
Other payables	45,590,373.49	701,819.56
Other current liabilities	440,632.74	880,632.74
Total current liabilities	200,443,475.82	171,164,215.37
Total liabilities	200,443,475.82	171,164,215.37
<b>Shareholders' Equity:</b>		
Share capital	789,644,637.00	789,644,637.00
Capital reserve	187,767,058.72	187,767,058.72
Surplus reserve	74,376,643.16	74,376,643.16
Retained earnings	35,662,986.57	42,783,944.86
Total equity	1,087,451,325.45	1,094,572,283.74
<b>Total Liabilities and Equity</b>	<b>1,287,894,801.27</b>	<b>1,265,736,499.11</b>

# CONSOLIDATED INCOME STATEMENT

30 June 2020 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Six months ended 30 June	
	2020	2019
1. Total operating revenue	<b>487,253,473.33</b>	450,513,067.17
Including: Operating revenue	<b>487,253,473.33</b>	450,513,067.17
2. Total operating costs	<b>478,908,322.76</b>	479,058,769.28
Including: Operating costs	<b>380,476,405.80</b>	372,841,463.94
Business taxes and surcharges	<b>5,428,686.09</b>	3,942,346.38
Selling expenses	<b>32,341,528.15</b>	40,159,326.16
General and administrative expenses	<b>28,181,865.03</b>	32,697,905.63
Research and development expenses	<b>30,195,081.30</b>	27,853,907.88
Financial expenses	<b>2,284,756.39</b>	1,563,819.29
Including: Interest expenses	<b>2,890,228.28</b>	1,763,404.67
Interest income	<b>708,020.72</b>	684,358.02
Add: Other gains	<b>7,289,544.16</b>	6,648,542.97
Investment gains ("-" as loss)	<b>218,395.08</b>	658,689.06
Credit impairment losses ("-" as loss)	<b>1,389,041.03</b>	-1,018,267.87
Assets impairment losses ("-" as loss)	<b>-5,357,716.11</b>	-1,069,918.83
Gains from disposal of assets ("-" as loss)	<b>210,763.10</b>	295,997.68
3. Operating profit ("-" as loss)	<b>12,095,177.83</b>	-23,030,659.10
Add: Non-operating income	<b>13,515.76</b>	31,677.20
Less: Non-operating expenses	<b>23,959.44</b>	297,806.10
4. Total profit ("-" as total loss)	<b>12,084,734.15</b>	-23,296,788.00
Less: Income tax expenses	<b>-1,731,246.92</b>	-772,061.75
5. Net profit ("-" as net loss)	<b>13,815,981.07</b>	-22,524,726.25
(1) Classification by business continuity		
1. Net profit from continuing operations ("-" as net loss)	<b>13,815,981.07</b>	-22,524,726.25
(2) Classification by ownership		
1. Net profit attributable to equity holders of the parent	<b>17,075,548.93</b>	-18,428,119.21
2. Minority interests	<b>-3,259,567.86</b>	-4,096,607.04
6. Other comprehensive income, net of tax		
7. Total comprehensive income	<b>13,815,981.07</b>	-22,524,726.25
Total comprehensive income attributable to equity holders of the parent	<b>17,075,548.93</b>	-18,428,119.21
Total comprehensive income attributable to minority shareholders	<b>-3,259,567.86</b>	-4,096,607.04
8. Earnings per share:		
(1) Basic earnings per share	<b>0.0216</b>	-0.0233
(2) Diluted earnings per share	<b>0.0216</b>	-0.0233

# INCOME STATEMENT OF THE PARENT COMPANY

30 June 2020 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Six months ended 30 June	
	2020	2019
1. Operating revenue	<b>27,624,187.73</b>	19,334,377.20
Less: Operating costs	<b>24,402,815.80</b>	19,180,367.29
Business taxes and surcharges	<b>1,188,007.56</b>	301,063.75
Selling expenses	<b>563,303.09</b>	483,843.56
General and administrative expenses	<b>6,218,367.75</b>	6,514,687.92
Research and development expenses	<b>2,800,872.12</b>	1,692,797.86
Financial expenses	<b>2,312,869.57</b>	-1,270,038.26
Including: Interest expenses	<b>2,383,052.51</b>	1,332,658.21
Interest income	<b>96,313.92</b>	2,615,899.29
Add: Other gains	<b>429,899.90</b>	338,394.45
Investment gains ("-" as loss)	<b>2,558,884.25</b>	159,317.65
Credit impairment losses ("-" as loss)	<b>-102.67</b>	1.92
Assets impairment losses ("-" as loss)	<b>-246,091.68</b>	
Gains from disposal of assets ("-" as loss)		-2,496.40
2. Operating profit ("-" as loss)	<b>-7,119,458.36</b>	-7,073,127.30
Add: Non-operating income	<b>4,075.47</b>	400.00
Less: Non-operating expenses	<b>3,400.00</b>	19,983.16
3. Total profit ("-" as total loss)	<b>-7,118,782.89</b>	-7,092,710.46
Less: Income tax expenses	<b>2,175.40</b>	2,842.76
4. Net profit ("-" as net loss)	<b>-7,120,958.29</b>	-7,095,553.22
(1) Net profit from continuing operations ("-" as net loss)	<b>-7,120,958.29</b>	-7,095,553.22
5. Other comprehensive income, net of tax		
6. Total comprehensive income	<b>-7,120,958.29</b>	-7,095,553.22
7. Earnings per share		

# CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2020 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Six months ended 30 June	
	2020	2019
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	274,033,775.48	280,262,418.10
Return of taxes and levies	8,213,839.98	5,000,312.33
Cash received relating to other operating activities	18,674,201.88	12,489,583.11
Sub-total of cash inflow	300,921,817.34	297,752,313.54
Cash paid for purchase of goods and acceptance of services	104,999,540.89	151,586,935.04
Cash paid to and on behalf of employees	69,253,054.49	74,596,168.01
Payment of taxes and levies	17,750,876.69	17,182,339.24
Cash paid relating to other operating activities	62,315,593.68	61,530,143.99
Sub-total of cash outflow	254,319,065.75	304,895,586.28
Net cash flows from operating activities	46,602,751.59	-7,143,272.74
2. Cash flows from investing activities:		
Cash received from return of investments	100,420,000.00	100,000,000.00
Cash received from investment gains	231,118.53	674,575.34
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	3,338,530.26	2,238,061.18
Sub-total of cash inflow	103,989,648.79	102,912,636.52
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	56,763,582.31	64,871,098.56
Cash paid for investments	30,200,000.00	70,000,000.00
Sub-total of cash outflow	86,963,582.31	134,871,098.56
Net cash flows from investing activities	17,026,066.48	-31,958,462.04
3. Cash flows from financing activities:		
Cash received from borrowings	223,000,000.00	198,700,000.00
Sub-total of cash inflow	223,000,000.00	198,700,000.00
Cash paid for debt repayments	240,000,000.00	38,700,000.00
Cash paid for distribution of dividend and profit or payment of interest expenses	2,942,394.24	1,566,082.47
Sub-total of cash outflow	242,942,394.24	40,266,082.47
Net cash flows from financing activities	-19,942,394.24	158,433,917.53
4. Effect of changes in foreign exchange rate on cash and cash equivalents	313,568.86	-187,229.15
5. Net increase in cash and cash equivalents	43,999,992.69	119,144,953.60
Add: Opening balance of cash and cash equivalents	117,113,481.79	120,293,184.97
6. Closing balance of cash and cash equivalents	161,113,474.48	239,438,138.57

# STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

30 June 2020 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Six months ended 30 June	
	2020	2019
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	41,257,625.57	23,013,237.57
Return of taxes and levies	5,098,907.74	539,462.49
Cash received relating to other operating activities	34,512,816.27	943,410.13
Sub-total of cash inflow	80,869,349.58	24,496,110.19
Cash paid for purchase of goods and acceptance of services	14,078,465.98	24,787,958.51
Cash paid to and on behalf of employees	7,616,714.72	6,303,882.60
Payment of taxes and levies	460,672.85	1,520,556.03
Cash paid relating to other operating activities	6,108,475.91	23,931,260.32
Sub-total of cash outflow	28,264,329.46	56,543,657.46
Net cash flows from operating activities	52,605,020.12	-32,047,547.27
2. Cash flows from investing activities:		
Cash received from return of investments	70,000,000.00	20,000,000.00
Cash received from investment gains	160,054.80	168,876.71
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		26,401.08
Cash received relating to other investing activities	80,000,000.00	30,000,000.00
Sub-total of cash inflow	150,160,054.80	50,195,277.79
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	35,880,791.66	32,003,740.11
Cash paid relating to other investing activities	80,000,000.00	80,000,000.00
Sub-total of cash outflow	115,880,791.66	112,003,740.11
Net cash flows from investing activities	34,279,263.14	-61,808,462.32
3. Cash flows from financing activities:		
Cash received from borrowings	213,000,000.00	169,000,000.00
Sub-total of cash inflow	213,000,000.00	169,000,000.00
Cash paid for debt repayments	233,000,000.00	9,000,000.00
Cash paid for distribution of dividend and profit or payment of interest expenses	2,439,533.54	1,132,190.21
Sub-total of cash outflow	235,439,533.54	10,132,190.21
Net cash flows from financing activities	-22,439,533.54	158,867,809.79
4. Effect of changes in foreign exchange rate on cash and cash equivalents	-1,971.46	
5. Net increase in cash and cash equivalents	64,442,778.26	65,011,800.20
Add: Opening balance of cash and cash equivalents	25,194,396.30	37,383,008.66
6. Closing balance of cash and cash equivalents	89,637,174.56	102,394,808.86



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2020 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Six months ended 30 June 2020						Total shareholders' equity
	Attributable to equity holders of the parent						
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total	Minority interests	
1. Balance at the end of last year	789,644,637.00	182,334,093.78	135,379,620.20	194,476,637.39	1,301,834,988.37	-7,196,713.20	1,294,638,275.17
2. Balance at the beginning of year	789,644,637.00	182,334,093.78	135,379,620.20	194,476,637.39	1,301,834,988.37	-7,196,713.20	1,294,638,275.17
3. Increase/decrease during the period ("-" as decrease)				17,075,548.93	17,075,548.93	-3,259,567.86	13,815,981.07
(1) Total comprehensive income				17,075,548.93	17,075,548.93	-3,259,567.86	13,815,981.07
4. Balance at the end of the period	789,644,637.00	182,334,093.78	135,379,620.20	211,552,186.32	1,318,910,537.30	-10,456,281.06	1,308,454,256.24

Item	Six months ended 30 June 2019						Total shareholders' equity
	Attributable to equity holders of the parent						
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total	Minority interests	
1. Balance at the end of last year	789,644,637.00	182,334,093.78	135,379,620.20	371,188,331.83	1,478,546,682.81	11,975,478.16	1,490,522,160.97
2. Balance at the beginning of year	789,644,637.00	182,334,093.78	135,379,620.20	371,188,331.83	1,478,546,682.81	11,975,478.16	1,490,522,160.97
3. Increase/decrease during the period ("-" as decrease)				-18,428,119.21	-18,428,119.21	-4,096,607.04	-22,524,726.25
(1) Total comprehensive income				-18,428,119.21	-18,428,119.21	-4,096,607.04	-22,524,726.25
4. Balance at the end of the period	789,644,637.00	182,334,093.78	135,379,620.20	352,760,212.62	1,460,118,563.60	7,878,871.12	1,467,997,434.72

# STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

30 June 2020 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	Six months ended 30 June 2020				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	42,783,944.86	1,094,572,283.74
2. Balance at the beginning of year	789,644,637.00	187,767,058.72	74,376,643.16	42,783,944.86	1,094,572,283.74
3. Increase/decrease during the period ("-" as decrease)				-7,120,958.29	-7,120,958.29
(1) Total comprehensive income				-7,120,958.29	-7,120,958.29
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>35,662,986.57</u>	<u>1,087,451,325.45</u>

Item	Six months ended 30 June 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 ("-" as decrease)				-4,130,854.20	-4,130,854.20
(1) Total comprehensive income				-4,130,854.20	-4,130,854.20
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>53,976,189.43</u>	<u>1,105,764,528.31</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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 13th meeting of the sixth session of the Board of the Company on 21 August 2020.

The Company has included six 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

30 June 2020 | (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

30 June 2020 | (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

30 June 2020 | (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

Measured in accordance with ASBE 23 — Transfer of Financial Assets.

###### 3) Financial guarantee contracts not classified as those specified in 1) or 2) above, 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 1)

Subsequently measured at the higher of the following two amounts upon initial recognition: (1) the amount of loss provision determined in accordance with the impairment provisions of financial instruments, and (2) initial amount recognized net of accumulated amortization determined in accordance with relevant requirements of "PRC GAAP 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;
- 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.

###### 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

30 June 2020 | (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

30 June 2020 | (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

30 June 2020 | (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

30 June 2020 | (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		
Accounts receivable — grouping by age	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 — 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

30 June 2020 | (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

30 June 2020 | (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

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

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

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

##### *(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

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## 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

30 June 2020 | (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

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

### (15) Fixed Assets

#### 1. Recognition of fixed assets

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

#### 2. Depreciation of fixed assets

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

### (16) Construction in Progress

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

### (17) Borrowing Costs

#### 1. Capitalization of borrowing costs

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

#### 2. Timing of borrowing costs capitalization

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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

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## 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

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## 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 loss in subsequent accounting periods, but the amounts recognised in other comprehensive income can be transferred within the scope of interests.

# NOTES TO THE FINANCIAL STATEMENTS

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

### **(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

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## 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

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## 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**

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

# NOTES TO THE FINANCIAL STATEMENTS

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## 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

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## 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

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## 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

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## 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

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## 4. TAXATION

### (1) Major taxes and tax rates

Type of tax	Basis	Tax rate
Value added tax (VAT)	Sales of goods or rendering of taxable services	13%, 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 profit	15%, 25% (Note 2)

(Note 1): The sale of the steering systems, parts and other commodities by the Company has been subject to the VAT at the rate of 13%. The “exemption, offset and rebate” tax policy has applied to export goods of Hangzhou Shibao Auto Steering Gear Co., Ltd. and Jilin Shibao Machinery Manufacturing Co., Ltd., both are subsidiaries of the Company, the export rebate rate on export goods is subject to the tax rate of 13%. The transfer of patented technologies and provision of services and otherwise have been subject to the VAT at the rate of 6%. The leasing of properties of the Company acquired after 30 April 2016 is subject to the VAT at the rate of 9%, while the leasing of properties acquired before 30 April 2016 is 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%

### (2) Tax concession

- According to the “Letter Regarding 2017 First Batch Filing of High-tech Enterprises of Zhejiang Province” issued by the Leading Group Office of National High-tech Enterprises Recognition and Management (CTP No. [2017] 201), the Company’s subsidiaries, Hangzhou Shibao Auto Steering Gear Co., Ltd. and Hangzhou New Shibao Electric Power Steering Co., Ltd. obtained the High-tech Enterprise Certificates (No. GR201733000242 and GR201733001928 respectively) during 2017, with a valid period from 2017 to 2019. During the reporting period, Hangzhou Shibao Auto Steering Gear Co., Ltd. and Hangzhou New Shibao Electric Power Steering Co., Ltd. have been applying for the recognition of high-tech enterprises. As at the date of this report, the approval is not yet received. Hangzhou Shibao Auto Steering Gear Co., Ltd. and Hangzhou New Shibao Electric Power Steering Co., Ltd. are subject to a corporate income tax rate of 15% during the period.
- 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. During the reporting period, Beijing Autonics Technology Co., Ltd. has been applying for the recognition of high-tech enterprises. As at the date of this report, the approval is not yet received. Beijing Autonics Technology Co., Ltd. is subject to a corporate income tax rate of 15% during the period.



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

## 4. TAXATION (Continued)

### (2) Tax concession (Continued)

3. According to the "Notification Regarding the Announcement of the List of the First Batch of High-tech Enterprises of Anhui Province Recognized in 2017" (Ke Gao No. [2017] 62) issued by the Anhui Provincial Department of Science and Technology, Anhui Provincial Department of Finance, Anhui Provincial State Taxation Bureau and Anhui Provincial Local Taxation Bureau, the Company's subsidiary, Wuhu Sterling Steering System Co., Ltd. obtained the High-tech Enterprise Certificate (No. GR201734000456) during 2017, with a valid period from 2017 to 2019. During the report period, Wuhu Sterling Steering System Co., Ltd. has been applying for the recognition of high-tech enterprises. As at the date of this report, the approval is not yet received. Wuhu Sterling Steering System Co., Ltd. is subject to a corporate income tax rate of 15% during the period.
4. In accordance with the announcement relating to the "Policy of strengthen the value-added tax reformation" issued by Ministry of Finance, State Taxation Administration and General Administration of Customs (Ministry of Finance, State Taxation Administration and General Administration of Customs [2019] No.39). The Company was satisfied the conditions of tax credit at the relevant refundable periods and received the refund of VAT credit of RMB5,098,907.74 during January to June 2020.

## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Cash	100,004.95	146,405.44
Bank deposits	161,013,469.53	116,967,076.35
Other monetary funds	40,597,671.55	13,709,633.73
Total		
Including: the total amount of money placed overseas	201,711,146.03	130,823,115.52

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

Other monetary funds at the end of the period represents the security deposits of RMB40,597,671.55 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	780,000.00	71,000,000.00
Including: bank short-term wealth management products	780,000.00	71,000,000.00
Total	780,000.00	71,000,000.00

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

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

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

#### 2. Financial assets held for trading

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

As at 30 June 2020, the Company held a single wealth management product in an amount of RMB780,000.00 purchased from Industrial Bank Co., Ltd.. The wealth management product was a bank short-term wealth management product, which could be redeemed at any time.

#### 3. Accounts receivable

##### (1) Breakdown

##### 1) Breakdown by types

Type	Carrying amount		Balance at the end of the period		Book value
	Amount	Proportion (%)	Amount	Provision for bad debts Provision (%)	
Bad debt provision on individual basis	53,672,037.80	12.20	53,672,037.80	100.00	
Bad debt provision by groups	386,091,073.51	87.80	1,954,745.90	0.51	384,136,327.61
Total	439,763,111.31	100.00	55,626,783.70	12.65	384,136,327.61

Type	Carrying amount		Balance at the beginning of the period		Book value
	Amount	Proportion (%)	Amount	Provision for bad debts 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

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

Description	Carrying amount		Balance at the end of the period		Reason for provision
	Amount	Proportion (%)	Amount	Provision for bad debts 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. (浙江眾泰汽車製造有限公司) and its affiliated companies	12,336,525.95		12,336,525.95	100.00	The amount was not expected to be recovered in whole
Chongqing Lifan Passenger Vehicle Co., Ltd. (重慶力帆乘用車有限公司) and its branch companies	9,797,610.00		9,797,610.00	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)	6,946,258.01		6,946,258.01	100.00	The amount was not expected to be recovered in whole
Total of other entities	9,417,761.32		9,417,761.32	100.00	The amount was not expected to be recovered in whole
Total	53,672,037.80		53,672,037.80	100.00	

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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 bad debt provision by groups

Group	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Grouping by age	386,091,073.51	1,954,745.90	0.51
Total	386,091,073.51	1,954,745.90	0.51

##### 4) Accounts receivable with bad debt provision according to grouping by age

Age	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year	375,965,147.90	338,368.63	0.09
1-2 years	7,461,667.62	411,884.05	5.52
2-3 years	1,899,498.74	439,733.97	23.15
Over 3 years	764,759.25	764,759.25	100.00
Total	386,091,073.51	1,954,745.90	0.51

##### (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	378,224,340.86	2,597,561.59	0.69	417,690,591.03	26,002,685.30	6.23
1-2 years	41,837,772.52	34,787,988.95	83.15	30,080,472.69	24,464,226.47	81.33
2-3 years	9,257,240.54	7,797,475.77	84.23	3,271,066.31	1,726,441.37	52.78
Over 3 years	10,443,757.39	10,443,757.39	100.00	4,822,471.59	4,822,471.59	100.00
Sub-total	439,763,111.31	55,626,783.70	12.65	455,864,601.62	57,015,824.73	12.51

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

30 June 2020 | (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

##### 1) Breakdown

Item	Balance at the beginning of the period	Increase during the period			Decrease during the period			Balance at the end of the period
		Provision	Recovery	Others	Reversal	Write-off	Others	
Bad debt provision on individual basis	55,621,046.45				1,949,008.65			53,672,037.80
Bad debt provision by groups	1,394,778.28	559,967.62						1,954,745.90
Sub-total	57,015,824.73	559,967.62			1,949,008.65			55,626,783.70

##### 2) Significant amounts of provision for bad debts recovered or reversed during the period

Company Name	Amounts recovered or reversed	The way of receiving funds
Guian Sitech Electric Auto Industry Co., Ltd. (貴安新區新特電動汽車工業有限公司)	1,200,000.00	Received by way of bank deposit
Jiangsu Jintan Auto Industry Co., Ltd. (江蘇金壇汽車工業有限公司)	596,343.29	Returned goods
Sub-total	1,796,343.29	

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

##### 1) During the period, no accounts receivable were written off.

##### (5) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
Zhejiang Yuanjing Auto Parts Co., Ltd. (浙江遠景汽配有限公司)	63,775,954.73	14.50	75,046.94
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	58,187,032.13	13.23	133,005.94
FAW Jiefang Automobile Co., Ltd. (一汽解放汽車有限公司)	36,159,286.29	8.22	32,543.36
Anhui Jianghuai Automobile Group Corp., Ltd. (安徽江淮汽車集團股份有限公司)	33,286,380.74	7.57	74,543.23
FAW Car Co., Ltd. (一汽奔騰轎車有限公司)	20,417,130.62	4.64	18,375.42
Sub-total	211,825,784.51	48.16	333,514.89

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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	Balance at the end of the period	Balance at the beginning of the period
Notes receivable	155,612,859.80	141,483,082.75
Total	155,612,859.80	141,483,082.75

##### 2) Impairment provision for financing receivables by groups

Item	Balance at the end of the period		
	Carrying amount	Impairment provision	Provision (%)
Bank acceptance bills by groups	155,612,859.80		
Sub-total	155,612,859.80		

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

Item	Pledged amount at the end of the period
Bank acceptance bills	48,166,721.04
Sub-total	48,166,721.04

##### (3) At the end of the period, the notes 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	253,171,210.63
Sub-total	253,171,210.63

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 bank 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 note holders in accordance with the Law of Negotiable Instruments.

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 5. Prepayments

##### (1) Aging analysis

Ageing	Balance at the end of the period		Balance at the beginning of the period	
	Carrying amount	Proportion (%)	Carrying amount	Proportion (%)
Within 1 year	4,881,267.27	85.30	6,037,733.49	91.98
1-2 years	841,189.74	14.70	526,189.12	8.02
Total	5,722,457.01	100.00	6,563,922.61	100.00

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

Name	Carrying amount	Percentage of the prepayments (%)
Benxi City Juxinda Machinery Manufacturing Co., Ltd. (本溪市聚鑫達機械製造有限公司)	1,690,786.88	29.55
Shandong Iron and Steel Co., Ltd. Laiwu Branch (山東鋼鐵股份有限公司萊蕪分公司)	535,243.26	9.35
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)	444,691.45	7.77
Jingshan (Xiamen) Technology Co., Ltd. (井善(廈門)科技有限公司)	178,288.59	3.12
Inner Mongolia Qinchuan Machine Tool Co., Ltd. (內蒙古秦川機床有限公司)	96,000.00	1.68
Total	2,945,010.18	51.47



# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 6. Other receivables

##### (1) Breakdown

##### 1) Breakdown by types

Balance at the end of the period					
Types	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Provision (%)	
Bad debt provision on individual basis	358,779.64	4.89	358,779.64	100.00	
Including: other receivables	358,779.64	4.89	358,779.64	100.00	
Provision for bad debts by groups	6,978,917.30	95.11			6,978,917.30
Including: other receivables	6,978,917.30	95.11			6,978,917.30
Total	7,337,696.94	100.00	358,779.64	4.89	6,978,917.30

Balance at the beginning of the period					
Types	Carrying amount		Provision for bad debts		Book value
	Amount	(%)	Amount	Provision (%)	
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 debts 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

##### 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 others	358,779.64	358,779.64	100.00	The amount was not expected to be recovered
Sub-total	<u>358,779.64</u>	<u>358,779.64</u>	<u>100.00</u>	

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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)

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

##### 3) Other receivables with bad debt provision by groups

Group	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Receivables from government	3,225,240.00		
Deposits receivable	315,032.00		
Imprest receivable and etc.	3,438,645.30		
Sub-total	6,978,917.30		

##### (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	2,256,612.25			1,952,221.65		
1-2 years	614,932.29			689,337.56		
2-3 years	721,272.52			537,199.99		
Over 3 years	3,744,879.88	358,779.64	9.58	3,804,855.71	358,779.64	9.43
Sub-total	7,337,696.94	358,779.64	4.89	6,983,614.91	358,779.64	5.14

##### (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

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## 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	315,032.00	947,002.00
Government provisional borrowings	3,225,240.00	3,225,240.00
Imprest	2,560,808.37	1,994,233.08
Others	1,236,616.57	817,139.83
Total	7,337,696.94	6,983,614.91

(6) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Aging	Percentage of other receivables (%)	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	43.95	
Panfar Construction Group Co., Ltd. (八方建設集團有限公司)	Other	458,360.19	2-3 years	6.25	
Shenzhen Haoyuan Technology Company Limited (深圳市好域安科技有限公司)	Other	234,542.00	over 3 years	3.20	234,542.00
Zhang Xiaogang (張曉剛)	Imprest	215,000.00	within 1 year	2.93	
Yiwu Chenyi Communication Engineering Co., Ltd. (義烏辰益通信工程有限公司)	Other	208,149.35	within 1 year	2.84	
Sub-total		4,341,291.54		59.17	234,542.00

#### 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	87,294,653.84	9,646,309.14	77,648,344.70	70,300,497.71	8,385,337.87	61,915,159.84
Work-in-progress	23,465,584.38		24,146,616.43	24,146,616.43		28,061,200.70
Finished goods	135,178,870.35	24,729,282.62	110,449,587.73	149,509,982.99	24,320,483.94	125,189,499.05
Low-value consumables	6,003,371.97	1,399,865.26	4,603,506.71	6,869,315.41	1,282,577.19	5,586,738.22
Total	251,942,480.54	35,775,457.02	216,167,023.52	250,826,412.54	33,988,399.00	216,838,013.54

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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 (Continued)

##### (2) Provision

##### 1) Breakdown

Item	Balance at the beginning of the period	Increase during the period		Decrease during the period		Balance at the end of the period
		Provision	Others	Reversal or write-off	Others	
Raw materials	8,385,337.87	2,121,853.49		860,882.22		9,646,309.14
Finished goods	24,320,483.94	3,039,410.95		2,630,612.27		24,729,282.62
Low-value consumables	1,282,577.19	196,451.67		79,163.60		1,399,865.26
Sub-total	33,988,399.00	5,357,716.11		3,570,658.09		35,775,457.02

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

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

#### 8. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
VAT input tax recoverable	14,426,458.21	18,148,967.39
Prepaid expenses	16,866.24	69,409.14
Prepaid corporate income tax	1,290,501.47	658,352.39
Total	15,733,825.92	18,876,728.92

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

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

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

#### 9. Investment property

##### (1) Breakdown

Item	Buildings	Land use right	Total
Original carrying amount			
Balance at the beginning of the period	49,991,398.04	8,255,372.00	58,246,770.04
Decrease during the period	8,060,916.18		8,060,916.18
1) Transfer to fixed assets	8,060,916.18		8,060,916.18
Balance at the end of the period	41,930,481.86	8,255,372.00	50,185,853.86
Accumulated depreciation and accumulated amortization			
Balance at the beginning of the period	8,576,656.93	4,062,083.36	12,638,740.29
Increase during the period	872,793.55	85,563.12	958,356.67
1) Provision or amortisation	872,793.55	85,563.12	958,356.67
Decrease during the period	553,112.19		553,112.19
1) Transfer to fixed assets	553,112.19		553,112.19
Balance at the end of the period	8,896,338.29	4,147,646.48	13,043,984.77
Carrying amount			
Carrying amount at the end of the period	33,034,143.57	4,107,725.52	37,141,869.09
Carrying amount at the beginning of the period	41,414,741.11	4,193,288.64	45,608,029.75

##### (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)	13,646,869.23	Still under process
Sub-total	13,646,869.23	

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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
<b>Cost</b>					
Balance at the beginning of the period	334,818,318.05	864,003,182.18	17,957,276.43	25,470,526.17	1,242,249,302.83
Increase during the period	14,117,238.02	7,470,468.89	931,769.92	519,207.84	23,038,684.67
(1) Purchase		1,624,290.03	923,893.81	158,544.11	2,706,727.95
(2) Transfer from construction in progress	6,056,321.84	5,846,178.86	7,876.11	360,663.73	12,271,040.54
(3) Transfer from investment property	8,060,916.18				8,060,916.18
Decrease during the period		7,510,922.36		15,428.72	7,526,351.08
(1) Disposal or write-off		7,510,922.36		15,428.72	7,526,351.08
Balance at the end of the period	348,935,556.07	863,962,728.71	18,889,046.35	25,974,305.29	1,257,761,636.42
<b>Accumulated depreciation</b>					
Balance at the beginning of the period	68,941,780.34	426,679,344.57	12,616,644.47	16,671,442.94	524,909,212.32
Increase during the period	5,720,011.47	32,978,680.87	944,195.30	1,051,676.42	40,694,564.06
(1) Provision	5,166,899.28	32,978,680.87	944,195.30	1,051,676.42	40,141,451.87
(2) Transfer from investment property	553,112.19				553,112.19
Decrease during the period		4,611,561.34		14,657.28	4,626,218.62
(1) Disposal or write-off		4,611,561.34		14,657.28	4,626,218.62
Balance at the end of the period	74,661,791.81	455,046,464.10	13,560,839.77	17,708,462.08	560,977,557.76
<b>Provision</b>					
Balance at the beginning of the period	825,717.39	245,524.61			1,071,242.00
Balance at the end of the period	825,717.39	245,524.61			1,071,242.00
<b>Book value</b>					
Balance at the beginning of the period	273,448,046.87	408,670,740.00	5,328,206.58	8,265,843.21	695,712,836.66
Balance at the end of the period	265,050,820.32	437,078,313.00	5,340,631.96	8,799,083.23	716,268,848.51

##### (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	20,514,195.53	Still under process
The New Shibao (Phase 2) plant (self use)	5,155,651.08	Still under process
Wanda real estate	1,953,495.65	Still under process
Sub-total	27,623,342.26	



# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 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	27,661,467.00		27,661,467.00	33,889,233.48		33,889,233.48
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	94,043,114.59		94,043,114.59	67,873,473.29		67,873,473.29
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	5,470,145.42		5,470,145.42	6,413,999.73		6,413,999.73
Other sundry projects	11,285,762.34		11,285,762.34	9,971,587.62		9,971,587.62
Total	138,460,489.35		138,460,489.35	118,148,294.12		118,148,294.12

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

Project name	Budget (RMB'0,000)	Balance at the beginning of the period	Increase during the period	Transfer to fixed assets	Transfer to investment property	Balance at the end of the period
The precious casting and processing of automotive components project	235,36.41	33,889,233.48	275,440.31	6,503,206.79		27,661,467.00
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	360,67.10	67,873,473.29	29,812,031.12	3,642,389.82		94,043,114.59
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	811,41.67	6,413,999.73		943,854.31		5,470,145.42
Other sundry projects		9,971,587.62	2,495,764.34	1,181,589.62		11,285,762.34
Total		118,148,294.12	32,583,235.77	12,271,040.54		138,460,489.35

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	60.40	65				Internal fund Fund raising
The annual production of 2,100,000 automotive steering gear (EPS) components series industrialization investment and development project	62.64	70				Internal fund Fund raising
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	4.73	5				Internal fund Internal fund
Other sundry projects						
Total						

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 12. Intangible assets

##### (1) Breakdown

Item	Land use right	Patented technology	Non-patented technology	Management software	Total
Cost					
Balance at the beginning of the period	97,477,656.43	1,281,666.67	48,696,372.12	7,291,177.58	154,746,872.80
Increase during the period	410,000.00			381,365.84	791,365.84
(1) Purchase	410,000.00			381,365.84	791,365.84
Balance at the end of the period	97,887,656.43	1,281,666.67	48,696,372.12	7,672,543.42	155,538,238.64
Accumulated amortization					
Balance at the beginning of the period	19,480,750.34	1,174,865.93	46,254,948.79	4,589,544.99	71,500,110.05
Increase during the period	982,177.60	64,084.06	1,220,416.16	247,953.88	2,514,631.70
(1) Provision	982,177.60	64,084.06	1,220,416.16	247,953.88	2,514,631.70
Balance at the end of the period	20,462,927.94	1,238,949.99	47,475,364.95	4,837,498.87	74,014,741.75
Book value					
Book value at the end of the period	77,424,728.49	42,716.68	1,221,007.17	2,835,044.55	81,523,496.89
Book value at the beginning of the period	77,996,906.09	106,800.74	2,441,423.33	2,701,632.59	83,246,762.75

##### (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	77,424,728.49	77,996,906.09
Including: interim lease	77,424,728.49	77,996,906.09
Sub-total	77,424,728.49	77,996,906.09

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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

(1) Original carrying amount of goodwill

Name of investee	Balance as at the beginning of the period	Arising from business combination during the period	Decrease during the period		Balance as 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) Impairment provision for goodwill

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
		Provision	Others	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

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

(1) Deferred income tax assets which are not offset

Item	Balance as at the end of the period		Balance as at the beginning of the period	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	50,868,852.01	8,423,679.04	49,070,089.29	8,047,682.07
Profits not realized from intra-group transactions	3,015,947.61	547,139.36	2,305,972.61	418,075.18
Accrued warranty expenses	21,907,827.12	4,232,228.60	17,093,266.24	3,178,439.75
Total	75,792,626.74	13,203,047.00	68,469,328.14	11,644,197.00

# NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

Item	Balance as at the end of the period		Balance as at the beginning of the period	
	Deductible temporary differences	Deferred income tax liabilities	Deductible temporary differences	Deferred income tax liabilities
Asset valuation surplus arising from business combination not under the common control	10,324,794.44	2,581,198.59	11,025,302.96	2,756,325.71
Total	10,324,794.44	2,581,198.59	11,025,302.96	2,756,325.71

Deductible temporary differences include:

- 1) There are taxable temporary differences arising from fair value adjustment on various identifiable assets and liabilities in acquiring Wuhu Sterling through business combination not under the common control in stages during 2013. The balance as at the beginning of 2020 was RMB10,384,469.26. During the period, taxable temporary differences of the reversal of fair value amortization was RMB316,008.30. As at 30 June 2020, the taxable temporary differences arising from such fair value adjustment amounted to RMB10,068,460.96.
- 2) In previous years, there were taxable temporary differences arising from fair value adjustment in various identifiable assets and liabilities in acquiring Beijing Autronics through business combination not under the common control. Its balance as at the beginning of 2020 was RMB640,833.70. During the period, taxable temporary differences of the reversal of fair value amortization was RMB384,500.22. As at 30 June 2020, the taxable temporary differences arising from such fair value adjustment amounted to RMB256,333.48.

# NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

Item	Offset amount of deferred income tax assets and liabilities at the end of the period	Remaining deferred income tax assets or liabilities after offset at the end of the period	Offset amount of deferred income tax assets and liabilities at the beginning of the period	Remaining deferred income tax assets or liabilities after offset at the beginning of the period
Deferred income tax assets		13,203,047.00		11,644,197.00
Deferred income tax liabilities		2,581,198.59		2,756,325.71

(4) Analysis of unrecognized deferred income tax assets

Item	Balance as at the end of the period	Balance as at the beginning of the period
Deductible temporary differences	46,235,553.21	41,934,134.44
Deductible losses	232,604,603.59	249,930,090.96
Total	278,840,156.80	291,864,225.40

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

Year	Balance as at the end of the period	Balance as at the beginning of the period	Note
2020	689,503.16	689,503.16	
2021			
2022	1,524,722.02	1,524,722.02	
2023	19,506,267.86	26,000,234.14	
2024	63,329,949.69	65,421,569.65	
2025	20,021,762.15	10,001,379.12	
2026			
2027	26,658,894.53	25,877,485.14	
2028	16,495,697.71	19,249,323.30	
2029	64,698,546.89	101,165,874.43	
2030	19,679,259.58		
Total	232,604,603.59	249,930,090.96	

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

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

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

#### 15. Other non-current assets

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Prepaid for purchase of long-term assets	20,139,973.20		20,139,973.20	9,221,484.68		9,221,484.68
Total	20,139,973.20		20,139,973.20	9,221,484.68		9,221,484.68

#### 16. Short-term borrowings

Type	Balance at the end of the period (Note)	Balance at the beginning of the period
Mortgage loans	3,004,315.07	20,000,000.00
Guaranteed loans (Note)	40,041,499.99	90,117,123.29
Credit loans	83,088,114.87	53,068,972.60
Total	126,133,929.93	143,186,095.89

(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.

#### 17. Notes payable

##### (1) Breakdown

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	105,854,576.59	78,049,284.98
Total	105,854,576.59	78,049,284.98

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

#### 18. Accounts payable

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Operating purchase payable	292,771,831.26	330,992,268.79
Long-term assets purchase payable	16,464,310.15	22,452,728.36
Total	309,236,141.41	353,444,997.15



# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 18. Accounts payable (Continued)

##### (2) Aging analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	289,735,039.18	335,039,531.43
1-2 years	8,603,688.44	10,354,208.86
2-3 years	3,012,476.02	2,945,278.35
Over 3 years	7,884,937.77	5,105,978.51
Total	309,236,141.41	353,444,997.15

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

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

#### 19. Receipts in advance

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Receipts in advance from house rent	2,914,522.51	5,180,624.33
Total	2,914,522.51	5,180,624.33

(2) As at the end of the period, no material 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	20,203,172.32	3,296,944.39
Total	20,203,172.32	3,296,944.39

#### 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
1. Short-term remuneration	12,226,527.55	70,299,419.87	68,069,858.36	14,456,089.06
2. Post-employment benefits – established withdrawal and deposit plan	715,751.42	1,118,359.01	1,183,196.13	650,914.30
Total	12,942,278.97	71,417,778.88	69,253,054.49	15,107,003.36

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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
1. Salaries, bonus, allowances and subsidies	11,322,931.61	61,147,142.46	60,719,233.55	<b>11,750,840.52</b>
2. Staff welfare (Note)		4,534,737.95	3,491,042.44	<b>1,043,695.51</b>
3. Social insurance	590,822.77	2,761,428.00	2,385,335.53	<b>966,915.24</b>
Including: Medical insurance	505,908.06	2,619,491.08	2,224,078.46	<b>901,320.68</b>
Work injury insurance	14,626.31	23,492.33	27,085.25	<b>11,033.39</b>
Maternity insurance	70,288.40	118,444.59	134,171.82	<b>54,561.17</b>
4. Housing funds	18,910.00	1,066,627.00	1,066,627.00	<b>18,910.00</b>
5. Labour union funds and employee education funds	293,863.17	789,484.46	407,619.84	<b>675,727.79</b>
Total	<u>12,226,527.55</u>	<u>70,299,419.87</u>	<u>68,069,858.36</u>	<u><b>14,456,089.06</b></u>

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

##### (3) Breakdown of established withdrawal and deposit plan

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
1. Basic pension insurance	683,272.04	1,076,440.17	1,139,041.52	<b>620,670.69</b>
2. Unemployment insurance	32,479.38	41,918.84	44,154.61	<b>30,243.61</b>
Total	<u>715,751.42</u>	<u>1,118,359.01</u>	<u>1,183,196.13</u>	<u><b>650,914.30</b></u>

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

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

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

#### 22. Taxes payable

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax	2,099,762.72	216,152.75
Individual income tax	240,218.92	388,068.19
Urban maintenance and construction tax	147,002.98	167,799.37
Real estate tax	1,358,777.52	1,405,775.81
Urban land use tax	781,403.29	244,798.76
Others	161,899.59	192,679.41
Total	4,789,065.02	2,615,274.29

#### 23. Other payables

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Other payables	1,370,282.89	1,780,936.38
Total	1,370,282.89	1,780,936.38

##### (2) Other payables

###### 1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Security deposits	1,044,473.15	1,093,273.15
Others	325,809.74	687,663.23
Total	1,370,282.89	1,780,936.38

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

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

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

#### 24. Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Accrued expenses	28,324,025.68	24,493,970.73
Accruals to be transferred to output VAT	455,683.39	428,602.76
Total	28,779,709.07	24,922,573.49

#### 25. Long-term borrowings

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term loans (Note)	8,800,000.00	8,800,000.00
Total	8,800,000.00	8,800,000.00

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

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

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

#### 26. Deferred income

##### (1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Reason
Government grants	43,582,481.56	517,900.00	5,299,970.11	38,800,411.45	
Total	43,582,481.56	517,900.00	5,299,970.11	38,800,411.45	

(2) For details of government grants which were credited to the profit or loss during the period, please see Note 5(4)3 to the financial statements.

#### 27. Share capital

Item	Balance at the beginning of the period	Increase/decrease during the period ("-" as decrease)					Balance at the end of the period
		Issuance of new shares	Bonus shares	Transfer from reserves	Others	Sub-total	
Shares with selling restrictions							
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

#### 28. Capital reserve

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

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

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

#### 29. Surplus reserve

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

#### 30. Retained earnings

Item	Balance for the current period	Balance for the corresponding period last year
Retained earnings at end of last year before adjustment	<b>194,476,637.39</b>	371,188,331.83
Retained earnings at the beginning of the year after adjustment	<b>194,476,637.39</b>	371,188,331.83
Add: Net profit attributable to equity holders of the parent	<b>17,075,548.93</b>	-18,428,119.21
Retained earnings at the end of the period	<b>211,552,186.32</b>	352,760,212.62

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

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

##### (1) Breakdown

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Main business	<b>477,350,656.53</b>	<b>377,743,478.79</b>	444,176,981.03	371,677,810.55
Other business	<b>9,902,816.80</b>	<b>2,732,927.01</b>	6,336,086.14	1,163,653.39
Total	<b>487,253,473.33</b>	<b>380,476,405.80</b>	450,513,067.17	372,841,463.94

##### (2) Performance obligation

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



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

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

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

#### 2. Business taxes and surcharges

Item	Balance for the current period	Balance for the corresponding period last year
Urban maintenance and construction tax	857,157.13	970,289.41
Education surcharge	367,837.32	415,766.90
Real estate tax	2,289,130.61	1,108,759.79
Land use tax	1,366,665.75	768,631.24
Vehicles and vessels use tax	18,070.28	22,133.28
Stamp duty	282,549.19	378,582.60
Local education surcharge	245,146.86	277,177.93
Environmental tax	2,128.95	1,005.23
Total	5,428,686.09	3,942,346.38

#### 3. Sales expenses

Item	Balance for the current period	Balance for the corresponding period last year
Transportation cost	11,318,782.80	11,059,398.12
Warranty fee	11,548,481.37	18,389,120.90
Wages, welfare and bonuses	3,416,168.22	4,105,396.30
Travelling expenses	540,400.88	1,233,324.88
Entertainment charge	2,000,226.19	2,058,701.09
Depreciation of fixed assets	107,515.80	111,775.49
Others	3,409,952.89	3,201,609.38
Total	32,341,528.15	40,159,326.16

#### 4. General and administration expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	16,256,761.28	19,337,668.01
Office cost	2,801,199.51	3,659,780.41
Professional service fee	1,907,778.64	2,035,521.60
Depreciation of fixed assets	3,114,934.02	2,800,115.68
Amortization of intangible assets	2,358,989.86	2,463,509.04
Other taxation	44,428.49	89,740.20
Travelling expenses	914,235.60	1,577,883.51
Entertainment charge	784,696.38	714,152.96
Others	43,269.74	64,845.93
Total	28,181,865.03	32,697,905.63

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

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

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

#### 5. Research and development expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	13,555,033.43	14,153,793.27
Direct investment	8,131,756.52	6,354,438.49
Energy costs	994,963.19	894,124.63
Depreciation of fixed assets	5,681,661.86	2,988,155.80
Amortization of intangible assets	395,932.27	610,119.48
Others	1,435,734.03	2,853,276.21
Total	30,195,081.30	27,853,907.88

#### 6. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	2,890,228.28	1,763,404.67
Interest income	-708,020.72	-684,358.02
Others	102,548.83	484,772.64
Including: net exchange loss	-313,568.86	187,229.15
Total	2,284,756.39	1,563,819.29

#### 7. Other gains

Source of other gains	Balance for the current period	Balance for the corresponding period last year
Government grants related to assets (Note)	5,299,970.11	5,186,569.28
Government grants related to income (Note)	1,989,574.05	1,461,973.69
Total	7,289,544.16	6,648,542.97

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

#### 8. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Investment gains from financial instruments held during the period	218,395.08	658,689.06
Total	218,395.08	658,689.06

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

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

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

#### 9. Credit impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debt losses	1,389,041.03	-1,018,267.87
Total	1,389,041.03	-1,018,267.87

#### 10. Assets impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Provision for inventory losses	-5,357,716.11	-1,069,918.83
Total	-5,357,716.11	-1,069,918.83

#### 11. Gains from disposal of assets

Source of gains from disposal of assets	Balance for the current period	Balance for the corresponding period last year
Gains from disposal of fixed assets	210,763.10	295,997.68
Total	210,763.10	295,997.68

#### 12. Non-operating income

Item	Balance for the current period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Others	13,515.76	31,677.20	13,515.76
Total	13,515.76	31,677.20	13,515.76

#### 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		201,444.36	
Local water conservancy construction funds	6,984.44	72,059.77	
Others	16,975.00	24,301.97	16,975.00
Total	23,959.44	297,806.10	16,975.00

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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	2,730.20	2,842.28
Deferred income tax	-1,733,977.12	-774,904.03
Total	-1,731,246.92	-772,061.75

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

Item	Balance for the current period
Total profit	12,084,734.15
Income tax expenses calculated at legal/applicable tax rate	3,021,183.53
Effects of different applicable tax rates on subsidiaries	-1,931,573.28
Effects on non-taxable income	-411,620.04
Effects on non-deductible costs, expenses and losses	621,204.99
Effects of utilization of deductible loss arising from deferred income tax assets not previously recognized	-5,682,485.27
Effects of deductible temporary difference arising from unrecognized deferred income tax assets or deductible loss during the period	5,456,984.70
Effects of including and excluding R&D expenses	-2,804,941.55
Income tax expenses	-1,731,246.92

(3) No provision for Hong Kong profits tax has been made for the period from January to June 2020 as the Company and its other subsidiaries had no profits generated in or arising from Hong Kong.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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 other operating activities

Item	Balance for the current period	Balance for the corresponding period last year
Recovery of deposits including banker's acceptances	13,435,243.57	9,238,164.95
Receipt of government grants	2,507,474.05	1,461,973.69
Financial expenses – interest income	708,020.72	684,358.02
Others	2,023,463.54	1,105,086.45
Total	18,674,201.88	12,489,583.11

#### 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	11,577,645.14	34,939,597.25
Cash paid as general and administrative expenses	6,460,069.05	7,662,599.45
Cash paid as research and development expenses	3,167,423.38	4,255,836.14
Payment of deposits including banker's acceptances	40,323,281.39	14,165,261.54
Others	787,174.72	506,849.61
Total	62,315,593.68	61,530,143.99

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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	13,815,981.07	-22,524,726.25
Add: Provision for impairment to assets	3,968,675.08	2,088,186.70
Depreciation of fixed assets, oil and gas assets and production	41,014,245.42	36,681,115.44
Depreciation of right-of-use assets		
Amortization of intangible assets	2,600,194.82	2,780,568.22
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" as gains)	-210,763.10	-295,997.68
Losses on write-off of fixed assets ("-" as gains)		
Losses on changes of fair value ("-" as gains)		
Financial expenses ("-" as gains)	2,576,659.42	1,950,633.82
Investment losses ("-" as gains)	-218,395.08	-658,689.06
Decrease in deferred income tax assets ("-" as increase)	-1,558,850.00	-599,776.95
Increase in deferred income tax liabilities ("-" as decrease)	-175,127.12	-175,127.08
Decrease in inventories ("-" as increase)	86,954.51	11,814,846.96
Decrease in operational receivables ("-" as increase)	-32,726,478.70	17,078,456.18
Increase in operational payables ("-" as decrease)	17,429,655.27	-55,282,763.04
Other		
Net cash flows from operating activities	46,602,751.59	-7,143,272.74
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	161,113,474.48	239,438,138.57
Less: Cash at the beginning of the period	117,113,481.79	120,293,184.97
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	43,999,992.69	119,144,953.60



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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 at the end of the period	Balance at the beginning of the period
1) Cash	<b>161,113,474.48</b>	117,113,481.79
Including: Cash on hand	<b>100,004.95</b>	146,405.44
Bank deposit readily available	<b>161,013,469.53</b>	116,967,076.35
Other monetary fund readily available		
Central bank deposit readily available		
Interbank deposit		
Interbank offer		
2) Cash equivalents		
Including: Bond investment due in three months		
3) Closing balance of cash and cash equivalents	<b>161,113,474.48</b>	117,113,481.79
Including: Restricted cash and cash equivalents of parent or group subsidiaries		

Closing balance of cash and cash equivalents in the statement of cash flows for the period of January to June 2020 was RMB161,113,474.48 and closing balance of cash on hand and at bank in the balance sheet as at 30 June 2020 was RMB201,711,146.03. The difference of RMB40,597,671.55 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 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.

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

Item	Balance for the current period	Balance for the corresponding period last year
Transferred endorsed commercial bill	<b>292,348,115.04</b>	299,932,493.39
Including: Payment for goods	<b>290,981,325.04</b>	298,136,493.39
Payment for the purchase of long-term assets such as fixed assets	<b>1,366,790.00</b>	1,796,000.00

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (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	40,597,671.55	Security deposits for the notes pool
Notes receivable	48,166,721.04	Pledge of the notes pool
Fixed assets	3,800,038.42	Borrowing and notes credit collateral
Intangible assets	3,061,636.67	Borrowing and notes credit collateral
Total	95,626,067.68	

#### 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	1,186,260.46	7.0795	8,398,130.94
Euro	2,681,058.47	7.961	21,343,906.48
Accounts receivable			
Including: US Dollar	1,908.00	7.0795	13,507.69
Euro	121,548.47	7.961	967,647.33
Accounts payable			
Including: Euro	700,000.00	7.961	5,572,700.00
Contract liabilities			
Including: US Dollar	782,518.77	7.0795	5,539,841.63
Euro	1,469,835.49	7.961	11,701,360.34

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

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

### (4) Others (Continued)

#### 3. Government grants

##### (1) Breakdown

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

##### Total-value method

Item	Government grants at the beginning of the period	Addition of grants during the period	Amortization during the period	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	6,269,166.76		1,594,999.98	4,674,166.78	Other gains	Note 1
Subsidy funds for the precious casting and processing of automotive components project	4,124,156.06		51,480.18	4,072,675.88	Other gains	Note 2
Special funds for establishment of a platform for public services provided in foreign trading	683,973.10		182,589.30	501,383.80	Other gains	Note 3
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	1,191,520.00		324,960.00	866,560.00	Other gains	Note 4
Heavy load hydraulic rack-and-pinion steering gear for high class market	141,190.96		38,506.68	102,684.28	Other gains	Note 5
Subsidies for research and development equipment	97,900.02		16,316.67	81,583.35	Other gains	Note 6
Technological improvement project for quality enhancement of rack-and-pinion steering gears	3,593,850.80		371,777.70	3,222,073.10	Other gains	Note 7
Construction project for development service platform of automotive steering system parts and components	14,359,371.19		1,723,124.58	12,636,246.61	Other gains	Note 8
The annual production of 100,000 electric power steering system project	987,777.78		70,555.56	917,222.22	Other gains	Note 9
The annual production of 100,000 medium and heavy duty commercial vehicles intelligent steering industrialization development project	8,030,302.98		642,424.26	7,387,878.72	Other gains	Note 10
Technical improvement project of production capacity increasing of 500,000 units/sets of steering gear	1,633,523.76		124,065.06	1,509,458.70	Other gains	Note 11
Key technological research project for high-safety smart automobile steer-by-wire system	810,000.00		45,000.00	765,000.00	Other gains	Note 12
Comprehensive rewards for technical innovation	512,681.48		34,955.56	477,725.92	Other gains	Note 13
Subsidies for purchase of research and development equipment	137,200.00		7,350.00	129,850.00	Other gains	Note 14
Subsidies for the construction of national innovation demonstration zone in Wuhu city	137,200.00		7,350.00	129,850.00	Other gains	Note 15
Comprehensive rewards of the technical innovation and investment of industrial enterprises in Wuhu city	691,600.00		37,050.00	654,550.00	Other gains	Note 16
Internet-of-Things construction project for intelligent production of high-end recirculation ball steering system	181,066.67		11,316.67	169,750.00	Other gains	Note 17
Intelligent production line project of middle and high-end rack-and-pinion steering gears		173,100.00	6,993.92	166,106.08	Other gains	Note 18
Public relations project of digital transformation of manufacturing industry		344,800.00	9,153.99	335,646.01	Other gains	Note 19
Sub-total	43,582,481.56	517,900.00	5,299,970.11	38,800,411.45		

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

### (4) Others (Continued)

#### 3. Government grants (Continued)

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

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

##### Total-value method (Continued)

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

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

### (4) Others (Continued)

#### 3. Government grants (Continued)

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

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

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

- (Note 9) Wuhu City confirmed subsidies for technology transformation project to strengthen industrial development base
- (Note 10) Jilin Province Development and Reform Commission document of "Notice of Distributing and Granting Special Supporting Fund for Investment Project of Front-stage Work of Important Revitalization Project of All Northeastern Provinces within National Budget in 2017 by Jilin Province Development and Reform Commission" (《吉林省發展和改革委員會關於分解下達2017年全省東北振興重大項目前期工作專項資助資金中央預算內投資計劃的通知》) (Ji Gai Fa Tou Zi (2017) No. 428) (吉發改投資[2017]428號)
- (Note 11) "Notice of Granting of Supporting Fund to Industrial Investment (Technology Transformation) Project of the Zone in 2016" (《關於下達2016年開發區工業投資(技術改造)項目資助資金的通知》) (Hang Jing Kai Guan Fa (2017) No. 179) (杭經開管發[2017]179號) issued by the Management Committee of Hangzhou Economic and Technology Zone (杭州經濟技術開發區管理委員會)
- (Note 12) Letter of Acceptance on Tender Topic of "Key Technological Research Project for High-safety Smart Automobile Steer-by-wire System (Tender No: SX2017-18)" issued by Beijing Municipal Science and Technology Committee (北京市科學技術委員會招標課題「高安全性智能汽車線轉向系統關鍵技術研究項目(招標編號: SX2017-18)」中標通知書)
- (Note 13) According to the Notice Regarding the Transmit of the Interim Measures on the Comprehensive Rewards and Subsidies of the Technical Innovation and Investment of Industrial Enterprises in Wuhu City issued by the Commission of Economy and Information Technology and Bureau of Finance by the Office of the People's Government of Wuhu City (Wu Zheng Ban [2017] No. 9) (蕪湖市人民政府辦公室關於轉發市經信委市財政局蕪湖市工業企業技術改造投資綜合獎補暫行辦法的通知蕪政辦[2017]9號).
- (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)
- (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)) issued by the People's Government of Wuhu City (蕪湖市人民政府)



# NOTES TO THE FINANCIAL STATEMENTS

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

### (4) Others (Continued)

#### 3. Government grants (Continued)

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

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

##### Total-value method (Continued)

(Note 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)

(Note 18) Notice on Approving the Financial Subsidy Project of Hangzhou Factory Internet-of-Things in 2019 (Hang Jing Xin Chan Shu [2019] No.119) (《關於核准2019年杭州市工廠物聯網財政補助項目的通知》(杭經信產數[2019]119號)) issued by Hangzhou City Bureau of Economy and Information Technology (杭州市經濟和信息化局)

(Note 19) Several Policies on Further Accelerating the Development of New Manufacturing (《關於進一步加快新製造業發展的若干政策》) issued by Hangzhou Qiantang New Area (杭州錢塘新區)

##### 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
Personnel stabilization subsidies	775,170.00	Other gains	Notice on Issues Related to the Stabilization and Return of Posts of Enterprises Which are Facing Operation Difficulties but with Possibility of Recovery (Si Ren She Lian Zi [2019] No.10) (《關於做好經營困難且恢復有望企業穩崗返還工作有關問題的通知》(四人社聯字[2019]10號)) and Notice on Forwarding the "Notice on Accelerating the Implementation of Unemployment Insurance Policies in Response to the COVID-19 Epidemic" (Wu Ren She Fa [2020] No.12) (《關於轉發<關於應對新冠肺炎疫情加快落實失業保險政策的通知>的通知》(無人社發[2020]12號)) issued by Wuhu Bureau of Human Resources and Social Security and Wuhu Bureau of Finance (蕪湖市人力資源和社會保障局、蕪湖市財政局)
Return of social insurance contributions	268,291.20	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)
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	200,000.00	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



# NOTES TO THE FINANCIAL STATEMENTS

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

### (4) Others (Continued)

#### 3. Government grants (Continued)

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

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

Item	Amount	Presented items	Description
Industrial development, land use tax incentives	183,300.00	Other gains	Opinions on Clarifying the Real Estate Tax and Urban Land Use Tax Policies for Industrial Enterprises in Response to the Epidemic (Cai Zong [2020] No. 169) (《關於明確工業企業應對疫情的房產稅、城鎮土地使用稅政策的意見》(財綜[2020]169號)) issued by Wuhu Bureau of Finance and Wuhu Taxation Bureau of State Taxation Administration (蕪湖市財政局、國家稅務總局蕪湖市稅務局)
Return of property land tax	133,197.39	Other gains	Opinions on Clarifying the Real Estate Tax and Urban Land Use Tax Policies for Industrial Enterprises in Response to the Epidemic (Cai Zong [2020] No. 169) (《關於明確工業企業應對疫情的房產稅、城鎮土地使用稅政策的意見》(財綜[2020]169號)) issued by Wuhu Bureau of Finance and Wuhu Taxation Bureau of State Taxation Administration (蕪湖市財政局、國家稅務總局蕪湖市稅務局)
Additional deduction of research and development investment subsidies	119,910.00	Other gains	Certain Opinions on Promoting High-quality Development of the Real Economy (Yi Zheng Fa [2018] No.54) (《關於推動實體經濟高質量發展的若干意見》(義政發[2018]54號))
Subsidies for the introduction of innovative talents in industrial development	80,000.00	Other gains	Implementation Opinions on Deepening of the Systematic and Structural Reform of Manpower Development and Promote the Talent Development as the Priority (Wu Shi Fa [2017] No. 6) (《關於深化人才發展體制機制改革推進人才優先發展的實施意見》(蕪市發[2017]6號)) and Wuhu City Introduces High-level Talents and Teams Certification and Relevant Subsidies Implementation Rules (《蕪湖市引進高層次人才和團隊認定及相關補貼實施細則》)
Municipal subsidy of one-off Scientific Research Subsidies for Postdoctoral Researchers in 2018	50,000.00	Other gains	Notice of Verification and Appropriation of Subsidies for the Establishment of Hangzhou Postdoctoral Scientific Research Work Station and One-off Scientific Research Subsidies for Postdoctoral Researchers (Hang Cai Hang [2018] No. 48) (《關於核撥杭州市博士後科研工作站建站資助和博士後研究人員一次性科研補助經費的通知》)(杭財行[2018]48號) issued by Hangzhou Municipal Finance Bureau and Human Resources and Social Security Bureau of Hangzhou City (杭州市財政局、杭州市人力資源和社會保障局)
Skill improvement action fund	40,000.00	Other gains	Implementation Opinions on the Implementation of Employment and Entrepreneurship Work at Present and in the Future (Yi Zheng Fa [2018] No.108) (《關於做好當前和今後一段時期就業創業工作的實施意見》義政發[2018]108號) issued by the People's Government of Yiwu City
Other government grants	139,705.46	Other gains	
Sub-total	1,989,574.05		

- (2) Government grants credited to the current profit or loss for the period amounted to RMB7,289,544.16.

# NOTES TO THE FINANCIAL STATEMENTS

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

### (4) Others (Continued)

#### 4. Interest expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	<b>2,890,228.28</b>	1,763,404.67
Including: Bank loans, interests of other loans fully repayable within 5 years	<b>2,890,228.28</b>	1,763,404.67
Interests of other loans not fully repayable within 5 years		
Less: Capitalized interests		
Financial expenses — interest expenses	<b>2,890,228.28</b>	1,763,404.67

During the period from January to June 2020 and from January to June 2019, there was no interest capitalization.

# 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

Name of subsidiary	Percentage of shareholding of minority shareholders (%)	Profit or loss contributed to minority shareholders of the current period	Declared dividends distribution to minority shareholders of the current period	Balance of minority shareholders' equity at the end of the period
Hangzhou New Shibao Electric Power Steering Co., Ltd.	10.00	-319,501.97		-4,874,074.97
Wuhu Sterling Steering System Co., Ltd.	42.11	-2,940,065.89		-5,582,206.09

#### 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		Non-current liabilities	Total liabilities
			Total assets	Current liabilities		
Hangzhou New Shibao Electric Power Steering Co., Ltd.	160,537,266.49	72,120,472.38	232,657,738.87	280,561,458.76	837,029.81	281,398,488.57
Wuhu Sterling Steering System Co., Ltd.	30,129,074.20	45,343,376.90	75,472,451.10	83,820,802.51	4,907,896.72	88,728,699.23

Name of subsidiary	Current assets	Non-current assets	As at the beginning of the period		Non-current liabilities	Total liabilities
			Total assets	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

# NOTES TO THE FINANCIAL STATEMENTS

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

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

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

##### (2) Profit/loss and cash flows

Name of subsidiary	Balance for the current period			Cash flows from operating activities
	Operating revenue	Net profit	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	98,439,978.37	-3,195,019.74	-3,195,019.74	7,686,193.06
Wuhu Sterling Steering System Co., Ltd.	6,691,179.72	-6,981,871.03	-6,981,871.03	-4,295,675.51

Name of subsidiary	Balance for the corresponding period last year			Cash flows from operating activities
	Operating revenue	Net profit	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	116,254,154.49	-4,666,576.68	-4,666,576.68	2,823,208.52
Wuhu Sterling Steering System Co., Ltd.	18,089,866.52	-8,620,159.97	-8,620,159.97	2,833,699.69

## 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	749,219,250.74	748,779,810.43
Including: Cash on hand and at bank	201,711,146.03	130,823,115.52
Short-term bank wealth management products	780,000.00	71,000,000.00
Accounts receivable	384,136,327.61	398,848,776.89
Financing receivables	155,612,859.80	141,483,082.75
Other receivables	6,978,917.30	6,624,835.27
Financial liabilities	551,394,930.82	585,261,314.40
Including: Bank and other borrowings	134,933,929.93	151,986,095.89
Notes payable	105,854,576.59	78,049,284.98
Accounts payable	309,236,141.41	353,444,997.15
Other payables	1,370,282.89	1,780,936.38

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

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## 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

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## 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 30 June 2020, the Company had certain concentration of credit risk as 48.16% (31 December 2019: 45.61%) 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

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

### (3) Liquidity risk

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

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

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

#### 1. Classification of financial assets based on the remaining maturity

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Cash on hand and at bank	201,711,146.03	201,711,146.03	201,711,146.03		
Short-term bank wealth management products	780,000.00	780,000.00	780,000.00		
Accounts receivable	384,136,327.61	384,136,327.61	384,136,327.61		
Financing receivables	155,612,859.80	155,612,859.80	155,612,859.80		
Other receivables	6,978,917.30	6,978,917.30	6,978,917.30		
Total	749,219,250.74	749,219,250.74	749,219,250.74		

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	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	748,779,810.43	748,779,810.43	748,779,810.43		

# NOTES TO THE FINANCIAL STATEMENTS

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## 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	134,933,929.93	136,679,809.38	127,879,809.38	8,800,000.00	
Notes payable	105,854,576.59	105,854,576.59	105,854,576.59		
Accounts payable	309,236,141.41	309,236,141.41	309,236,141.41		
Other payables	1,370,282.89	1,370,282.89	1,370,282.89		
Total	551,394,930.82	553,140,810.27	544,340,810.27	8,800,000.00	

Item	Carrying value	Balance at the beginning of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank and other borrowings	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	585,261,314.40	587,854,306.63	579,054,306.63	8,800,000.00	

### (4) Market risk

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

#### 1. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. 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 at 30 June 2020, the bank borrowings of the Company with floating interest rates were RMB83,000,000.00 (31 December 2019: RMB53,000,000.00), and a reasonable and possible 50% base point change in interest rates, with all other variables held constant, will not have any significant impact on total profit and shareholders' equity of the Company.

#### 2. Foreign exchange risk

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

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

# NOTES TO THE FINANCIAL STATEMENTS

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

### (5) Capital risk management

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

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. As at 30 June 2020, the Company's gearing ratio was -2.04% (end of 2019: 2.62%). The calculation is described as follow:

Item	Balance at the end of the period	Balance at the beginning of the period
Total borrowings	134,933,929.93	151,986,095.89
Less: Cash and cash equivalents	161,113,474.48	117,113,481.79
Net debt	-26,179,544.55	34,872,614.10
Equity	1,308,454,256.24	1,294,638,275.17
Total capital	1,282,274,711.69	1,329,510,889.27
Gearing ratio	-2.04%	2.62%

## 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			780,000.00	780,000.00
2. Financing receivables			155,612,859.80	155,612,859.80
Total assets measured at fair value on a recurring basis			156,392,859.80	156,392,859.80

# NOTES TO THE FINANCIAL STATEMENTS

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## 8. FAIR VALUE DISCLOSURE (Continued)

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

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

## 9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### (1) Related parties

#### 1. Parent company of the Company

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

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

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

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

2. Details of the Company's subsidiaries are set out in 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

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

Related Party	Related party transaction contents	Balance for the current period	Balance for the corresponding period last year
Beijing Jizhi Wuxian Technology Co., Ltd. (北京極智無限科技有限公司)	Water, electricity and etc.	23,632.36	11,085.84

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 2. Related-party lease

*The Company as lessor*

Name of lessee	Type of leased assets	Rental income recognised during the current period	Rental income recognised during the corresponding period last year
Beijing Jizhi Wuxian Technology Co., Ltd. (北京極智無限科技有限公司)	Buildings and structures	<b>85,714.29</b>	171,428.57

#### 3. Guarantee with related parties

*The Company and its subsidiaries as the secured parties*

Guarantor	Guaranteed amount	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fully fulfilled	Note
Shibao Holding, Zhang Shi Quan, Zhang Shi Zhong, Zhang Lan Jun, Zhang Bao Yi, Tang Hao Han, Yiwu City He Feng Automobile Spare Parts Co., Ltd. (義烏市和豐汽車配件有限公司), Lei Wei Zhu and Wang Zheng Xiao	40,041,499.99	2020.06.28	2021.06.22	No	Short-term borrowings
Zhang Shi Quan	83,088,114.87	2020.05.27— 2020.06.24	2021.05.22— 2021.06.22	No	Short-term borrowings
Shibao Holding, Zhang Shi Quan, Zhang Shi Zhong, Zhang Lan Jun, Zhang Bao Yi, Tang Hao Han, Yiwu City He Feng Automobile Spare Parts Co., Ltd., Lei Wei Zhu and Wang Zheng Xiao	6,550,000.00	2020.01.16— 2020.05.27	2020.07.17— 2020.11.28	No	Bankers acceptance
Shibao Holding	15,000,000.00	2020.03.16	2020.09.16	No	Bankers acceptance

#### 4. Remuneration of key management

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	<b>1,779,148.29</b>	1,923,183.78
Other key management	<b>219,631.55</b>	247,754.14
Total	<b>1,998,779.84</b>	2,170,937.92

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 1. Payables to related parties

Item	Related party	Balance at the end of the period	Balance at the beginning of the period
Notes payable	Zhejiang Shibao (Note)	400,000.00	3,334,000.00
	Hangzhou Shibao (Note)	2,265,000.00	2,000,000.00
	Beijing Autonics (Note)	5,350,000.00	10,435,680.60
	Hangzhou New Shibao (Note)	14,335,000.00	
Total		22,350,000.00	15,769,680.60

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

## 10. COMMITMENTS AND CONTINGENCIES

### (1) Commitments

#### Major commitments

Item	Balance at the end of the period	Balance at the beginning of the period
Material contracts in relation to acquisition of assets contracted but not recognized	120,145,874.72	130,217,773.67

### (2) Contingencies

As of the balance sheet date, the Company does not have important contingencies that need to be disclosed.

## 11. EVENTS AFTER THE BALANCE SHEET DATE

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



# NOTES TO THE FINANCIAL STATEMENTS

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## 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 93.00% of the operating revenue was generated from domestic sales, no detailed segment information is required to be disclosed.

#### 2. Information about major customers

(1) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company during the period from January to June 2020 is as follows:

Name of customer	Operating revenue	Proportion to total operating revenue of the Company (%)
Zhejiang Yuanjing Auto Parts Co., Ltd. (浙江遠景汽配有限公司)	73,156,283.73	15.01
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	55,486,072.14	11.39
Anhui Jianghuai Automobile Group Co., Ltd (徽江淮汽車集團股份有限公司)	49,880,953.41	10.24

# NOTES TO THE FINANCIAL STATEMENTS

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## 12. OTHER IMPORTANT MATTERS (Continued)

### (1) Segment Information (Continued)

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

- (2) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company during the period from January to June 2019 is as follows:

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

### (2) Other financial information

Item	Balance at the end of the period		Balance at the beginning of the period	
	Consolidated	The Parent	Consolidated	The Parent
Net current assets	372,454,154.09	348,362,969.63	365,639,465.63	383,032,610.92
Total assets less current liabilities	1,358,635,866.28	1,087,451,325.45	1,349,777,082.44	1,094,572,283.74

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

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

#### 1. Accounts receivable

##### (1) Breakdown

##### 1) Breakdown by types

Type	Balance at the end of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Provision (%)	
Bad debt provision on individual basis	292,979.00	0.51	292,979.00	100.00	
Bad debt provision by groups	57,463,502.34	99.49	420.59		57,463,081.75
Total	57,756,481.34	100.00	293,399.59	0.51	57,463,081.75

Type	Balance at the beginning of the period				Book value
	Carrying amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision (%)	
Bad debt provision on individual basis	292,979.00	0.47	292,979.00	100.00	
Bad debt provision 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

# NOTES TO THE FINANCIAL STATEMENTS

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## 13. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

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

#### 1. Accounts receivable (Continued)

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

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

Name	Balance at the end of the period			Reason for provision
	Carrying amount	Provision for bad debts	Provision (%)	
Receivables from Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd. (贛州江環汽車製造有限公司) and etc.	292,979.00	292,979.00	100.00	The amount was not expected to be recovered
Total	292,979.00	292,979.00	100.00	

##### 3) Accounts receivable with bad debt provision by groups

Item	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Aging group	467,318.86	420.59	0.09
Group of related dealings within the scope of combination	56,996,183.48		
Sub-total	57,463,502.34	420.59	100.00

##### 4) Accounts receivable with bad debt provision according to grouping by age

Age	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year	467,318.86	420.59	0.09
Sub-total	467,318.86	420.59	0.09

# NOTES TO THE FINANCIAL STATEMENTS

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## 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	1,402,568.86	420.59	0.03	6,063,192.12	317.92	0.01
1–2 years	9,905,072.34			15,470,077.36		
2–3 years	14,286,773.38			17,924,758.82		
Over 3 years	32,162,066.76	292,979.00	0.91	22,491,451.30	292,979.00	1.30
Sub-total	57,756,481.34	293,399.59	0.51	61,949,479.60	293,296.92	0.47

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

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

##### (3) Change in provision for bad debts

Type	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
Bad debt provision by groups	317.92	102.67						420.59
Sub-total	293,296.92	102.67						293,399.59

(4) There was no actual write-off of accounts receivables during the Period.

##### (5) The five largest accounts receivable

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
Wuhu Sterling	56,996,183.48	98.68	
Zhejiang Keli Vehicle Control System Co., Ltd. (浙江科力車輛控制系統有限公司)	462,911.86	0.80	416.62
Ganzhou Jiang Huan Automobile Manufacturing Co., Ltd. (贛州江環汽車製造有限公司)	125,000.00	0.22	125,000.00
Hubei San Huan Special Vehicle Co., Ltd. (湖北三環專用汽車有限公司)	43,400.00	0.08	43,400.00
Dongfeng Motor Transmission Shaft Co., Ltd. Shiyang Sub-company (東風汽車傳動軸有限公司十堰分公司)	36,000.00	0.06	36,000.00
Sub-total	57,663,495.34	99.84	204,816.62

# NOTES TO THE FINANCIAL STATEMENTS

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## 13. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

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

#### 2. Other receivables

##### (1) Breakdown

##### 1) Breakdown by types

Type	Balance at the end of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion %	Amount	Provision %	
Bad debt provision by groups	378,081,968.16	100.00			378,081,968.16
Including: Other receivables	378,081,968.16	100.00			378,081,968.16
Total	378,081,968.16	100.00			378,081,968.16

Type	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion %	Amount	Provision %	
Bad debt provision 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

##### 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 (%)
Security deposits	350.00		
Related party dealings within the scope of combination	377,132,935.67		
Imprest and etc.	948,682.49		
Sub-total	378,081,968.16		

##### (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	46,232,610.94			46,756,663.23		
1-2 years	21,246,406.41			32,868,533.12		
2-3 years	41,396,999.54			33,116,378.29		
Over 3 years	269,205,951.27			262,307,473.46		
Sub-total	378,081,968.16			375,049,048.10		

# NOTES TO THE FINANCIAL STATEMENTS

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## 13. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

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

#### 2. Other receivables (Continued)

(3) There was no actual write-off of other receivable 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	377,132,935.67	374,135,506.90
Security deposits	350.00	350.00
Imprest	173,585.23	454,831.01
Others	775,097.26	458,360.19
Total	378,081,968.16	375,049,048.10

(5) The five largest other receivables

Name	Nature of receivables	Carrying amount	Age	Percentage to the balance of other receivables (%)	Provision for bad debts
Jilin Shibao	Current accounts	138,823,007.02	Within 1 year, 1-2 years, 2-3 years, Over 3 years	36.72	
Beijing Autonics	Current accounts	121,927,968.87	Within 1 year, 1-2 years, 2-3 years, Over 3 years	32.25	
Hangzhou New Shibao	Current accounts	116,381,959.78	Within 1 year, 1-2 years, 2-3 years, Over 3 years	30.78	
Panfar Construction Group Co. Ltd. (八方建設集團有限公司)	Others	458,360.19	2-3 years	0.12	
Yiwu Chenyi Communications Engineering Co., Ltd. (義烏辰益通信工程有限公司)	Others	208,149.35	Within 1 year	0.06	
Sub-total		377,799,445.21		99.93	



# NOTES TO THE FINANCIAL STATEMENTS

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## 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

##### (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 Autronics	10,000,000.00			10,000,000.00		
Wuhu Sterling	19,447,407.38			19,447,407.38		
Total	185,159,214.87			185,159,214.87		

##### (3) Investment in non-public listed companies and public listed companies

Item	Balance at the end of the period	Balance at the beginning of the period
Investment in non-public listed companies	185,159,214.87	185,159,214.87
Total	185,159,214.87	185,159,214.87

# NOTES TO THE FINANCIAL STATEMENTS

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## 13. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

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

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

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Main business	25,009,766.91	23,491,525.11	17,463,234.15	18,498,611.30
Other business	2,614,420.82	911,290.69	1,871,143.05	681,755.99
Total	27,624,187.73	24,402,815.80	19,334,377.20	19,180,367.29

#### 2. Research and development expenses

Item	Balance for the current period	Balance for the corresponding period last year
Staff costs	440,505.71	364,246.73
Direct investment	1,104,581.97	1,013,483.71
Energy costs	290,557.04	154,633.91
Depreciation of fixed assets	960,327.4	142,540.24
Others	4,900.00	17,893.27
Total	2,800,872.12	1,692,797.86

#### 3. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Interest income from loans	2,407,889.16	
Investment gains from holding of financial instruments	150,995.09	159,317.65
Including: financial assets classified as FVTPL for the current period	150,995.09	159,317.65
Total	2,558,884.25	159,317.65

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2020 | (RMB Yuan) | (English translation for reference only)

## 14. OTHER SUPPLEMENTAL INFORMATION

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

Item	Amount
Gain or loss on disposal of non-current assets	210,763.10
Government subsidy included in profit or loss for the period, except for those closely relevant to normal business of the company, conformed to requirements of State policy, granted on fixed amount basis or enjoyed on continuous fixed amount basis	7,289,544.16
Gain or loss on entrusted investment or asset management	218,395.08
Reversal of impairment provisions for receivables and contract assets subject to individual impairment test	1,949,008.65
Other non-operating income and expenses apart from those stated above	-3,459.24
Less: Effect on enterprise income tax	278,676.93
Effect on interest of minority shareholders	379,941.76
Total	9,005,633.06

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

Profit for the reporting period	Return on weighted average net assets (%)	Earnings per share	
		Basic earnings per share (RMB/share)	Diluted earnings per share (RMB/share)
Net profits attributable to the ordinary shareholders of the Company	1.30	0.0216	0.0216
Net profits after deducting non-recurring profit or loss attributable to the ordinary shareholders of the Company	0.62	0.0102	0.0102

### (3) Differences in preparation of financial statements between domestic and overseas accounting standards

The financial statements of the Company were prepared in accordance with Accounting Standards of Business Enterprises. In 2011, according to "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" issued by the Hong Kong Stock Exchange in December 2010, the Company decided to prepare the financial statements in accordance with Accounting Standards of Business Enterprises for information disclosure on the Hong Kong Stock Exchange.

# DISCUSSION AND ANALYSIS OF OPERATIONS

## REVIEW OF CHINA AUTOMOBILE INDUSTRY

From January to June 2020, production and sales volume of China automobile industry were 10,112,000 units and 10,257,000 units respectively, representing a decrease of 16.80% and 16.90% respectively as compared with last year. Production and sales of passenger cars were 7,754,000 units and 7,873,000 units respectively, representing a decrease of 22.50% and 22.40% respectively as compared with last year. Among passenger cars, sales volume of China-brand passenger cars were 2,854,000 units representing a decrease of 29.00% as compared with last year. Production and sales volume of new energy cars were 397,000 units and 393,000 units respectively, representing a decrease of 36.50% and 37.40% respectively as compared with last year. Production and sales of commercial vehicles were 2,359,000 units and 2,384,000 units respectively, representing an increase of 9.50% and 8.60% respectively as compared with last year. Among commercial vehicles, production and sales volume of buses decreased by 9.60% and 12.40% respectively as compared with last year; production and sales volume of trucks increased by 11.50% and 10.80% respectively as compared with last year. The top ten automaker groups in China sold 9,139,000 units of automobiles in total, representing a decrease of 16.50% as compared with last year, and their sales represented 89.10% of the total sales of the automobile, representing an increase of 0.4 percentage point as compared with last year.

## ANALYSIS OF MAIN BUSINESS

### 1. Changes in major financial information

During the Reporting Period, the overall performance of automobile industry was better than expectation due to the economic recovery and the stimulation of the promotion policy, which caused the growth of the Company's revenue. The Company recorded a revenue of RMB487,253,473.33, representing an increase of 8.16% as compared with last year.

During the Reporting Period, the gross profit of the Company's main business amounted to RMB99,607,177.74, representing an increase of RMB27,108,007.26 as compared with last year. The gross profit margin of the Company's main business was 20.87% (corresponding period of last year: 16.32%). The reason for the increase in the gross profit margin of the Company was the boost of some profitable business was better than the overall performance.

During the Reporting Period, the Company's selling expenses amounted to RMB32,341,528.15, representing a decrease of 19.47% as compared with last year, which was due to the decrease in the warranty fees.

During the Reporting Period, the Company's general and administrative expenses amounted to RMB28,181,865.03, representing a decrease of 13.81% as compared with last year. It was mainly due to the pandemic of COVID-19, the governmental exemption to the enterprise of the social security expenditure resulting in decrease in staff costs and the strict travelling control launched by the government in the first quarter resulting in decrease in travelling expenses.

During the Reporting Period, the Company's research and development expenses amounted to RMB30,195,081.30, representing an increase of 8.41% as compared with last year. The research and development expenses accounted for 6.20% of the revenue, which was basically same as compared with last year. The Company's research and development expenses are mainly used on the technical research of automotive steering system's safety, intelligent, automation, energy saving and light weight, so as to maintain the Company's competitive edge in respect of sustainable development. During the Reporting Period, the Company's research and development expenses were mainly invested in the core technical fields of motorised, intelligent, automation and high-end hydraulic steering.

During the Reporting Period, the Company's financial expenses amounted to RMB2,284,756.39, representing an increase of 46.10% as compared with last year, which was mainly due to the increase in interest expenses.

During the Reporting Period, the Company's other gains amounted to RMB7,289,544.16, which was government subsidies.

During the Reporting Period, the Company's investment gains amounted to RMB218,395.08, representing a decrease of 66.84% as compared with last year, which was mainly due to the decrease in the purchase of the short-term bank wealth management products resulting in the decrease in the gains correspondingly.

# DISCUSSION AND ANALYSIS OF OPERATIONS

During the Reporting Period, the Company's income tax expenses amounted to RMB-1,731,246.92 (corresponding period of last year: RMB-772,061.75), which was mainly due to the increase in deductible temporary differences in the reporting period and the increase in the accrual of the deferred income tax correspondingly, resulting in the change in the deferred income tax in the reporting period.

In view of the above, the Company recorded a net profit attributable to shareholders of listed company of RMB17,075,548.93 during the Reporting Period, representing an increase of 192.66% as compared with last year.

During the Reporting Period, the net cash flows from operating activities was RMB46,602,751.59, representing an increase of 752.40% as compared with last year, mainly due to the decrease in purchase of materials. Net cash flows from investing activities was RMB17,026,066.48, representing an increase of 153.28% as compared with last year, mainly due to the decrease in purchase of fixed assets and bank short-term wealth products. Net cash flows from financing activities was RMB-19,942,394.24, representing a decrease of 112.59% as compared with last year, mainly due to the increase in repayment of bank borrowing. In view of the above, during the Reporting Period, net increase in cash and cash equivalents was RMB43,999,992.69, representing a decrease of 63.07% as compared with last year.

## 2. Composition of revenue

	January-June 2020		January-June 2019		Change
	Amount	Proportion to revenue	Amount	Proportion to revenue	
Total Revenue	487,253,473.33	100%	450,513,067.17	100%	8.16%
<b>By industry</b>					
Manufacture of automotive components and part	477,350,656.53	97.97%	444,176,981.03	98.59%	7.47%
Others	9,902,816.80	2.03%	6,336,086.14	1.41%	56.29%
<b>By products</b>					
Steering system and parts	425,633,013.10	87.36%	421,639,264.90	93.59%	0.95%
Parts and others	51,717,643.43	10.61%	22,537,716.13	5.00%	129.47%
Others	9,902,816.80	2.03%	6,336,086.14	1.41%	56.29%

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

	Revenue	Operating costs	Gross margin	Change of revenue	Change of Operating costs	Change of gross margin
<b>By industry</b>						
Manufacture of automotive components and parts	477,350,656.53	377,743,478.79	20.87%	7.47%	1.63%	4.55%
<b>By products</b>						
Steering system and parts	425,633,013.10	340,341,697.14	20.04%	0.95%	-3.14%	3.37%
Parts and other	51,717,643.43	37,401,781.65	27.68%	129.47%	84.20%	17.78%

# DISCUSSION AND ANALYSIS OF OPERATIONS

## ANALYSIS OF ASSETS AND LIABILITIES

### 1. Significant changes in composition of assets

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

	30 June 2020		31 December 2019		Change
	Amount	Proportion to total assets	Amount	Proportion to total assets	
Cash on hand and at bank	201,711,146.03	10.22%	130,823,115.52	6.62%	3.60%
Accounts receivable	384,136,327.61	19.47%	398,848,776.89	20.19%	-0.72%
Financing receivables	155,612,859.80	7.89%	141,483,082.75	7.16%	0.73%
Inventories	216,167,023.52	10.96%	216,838,013.54	10.98%	-0.02%
Fixed assets	695,712,836.66	35.26%	716,268,848.51	36.26%	-1.00%
Construction in progress	138,460,489.35	7.02%	118,148,294.12	5.98%	1.04%
Short-term borrowings	126,133,929.93	6.39%	143,186,095.89	7.25%	-0.86%
Notes payable	105,854,576.59	5.37%	78,049,284.98	3.95%	1.42%
Accounts payable	309,236,141.41	15.67%	353,444,997.15	17.89%	-2.22%

### 2. Assets and liabilities measured at fair value

Item	Amount at the beginning of the period	Gain/loss on changes in fair value for the current period	Cumulative changes in fair value recorded in equity	Impairment loss for the current period	Amount purchased during the reporting period	Amount sold during the reporting period	Amount at the end of the period
Financial assets							
Bank wealth management product	71,000,000.00				30,200,000.00	100,420,000.00	780,000.00
Total	71,000,000.00				30,200,000.00	100,420,000.00	780,000.00

### 3. Assets with restrictions in ownership or use rights at end of the reporting period

Assets with restrictions in ownership or use rights

Item	Carrying amount at the end of the period	Reason for restriction
Cash on hand and at bank	40,597,671.55	Security deposits of the notes pool
Notes receivable	48,166,721.04	Pledge of the notes pool
Fixed assets	3,800,038.42	Borrowing and note credit mortgage
Intangible assets	3,061,636.67	Borrowing and note credit mortgage
Total	95,626,067.68	



# DISCUSSION AND ANALYSIS OF OPERATIONS

## 4. Financial resources and capital structure

At the end of the reporting period, the amount of total loans and borrowings of the Company was RMB134,800,000.00 (31 December 2019: RMB151,800,000.00). Total loans and borrowings decreased by RMB17,000,000.00 when compared with the beginning of the year, mainly due to the decrease in guaranteed loans and increase in credit 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 RMB43,000,000.00 (31 December 2019: RMB90,000,000.00).

The Company issued 38.2 million RMB ordinary shares (A Shares) by way of non-public issue in 2014 at issue price of RMB18.46 per share, which raised a gross proceeds of RMB705,172,000.00 and a net proceeds of RMB658,162,877.04 after deducting the related costs. On 11 December 2014, the proceeds were credited into the regulatory proceeds account of the Company. The amount of the proceeds actually utilized by the Company between January and June of 2020 was RMB35,495,927.43, and RMB50,000,000.00 was used for temporary supplement of working capital. As at 30 June 2020, balance of proceeds amounted to RMB15,148,173.49, which included the accumulated amount of interests received from bank deposits and net gains from short-term bank wealth management products less bank handling fees and others.

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. At the end of the reporting period, the Company's gearing ratio was -2.04% (at the end of last year: 2.62%).

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

## MATERIAL ACQUISITION AND DISPOSAL

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

## FOREIGN CURRENCY EXPOSURE

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

## CONTINGENT LIABILITIES

As at the end of the reporting period, the Group had no material contingent liabilities.

## OUTLOOK

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. Since the second quarter, the overall performance of automobile industry was better than expectation due to the economic recovery and the stimulation of the promotion policy, which caused the growth of the Company's revenue. However, the uncertainty caused by global pandemic was still exist. Following the maturity of the promotion policy, the demand in the domestic market would be dropped due to the excessive demand. The Company believed that the overall economic environment in the second half year was full of uncertainty.

Looking ahead, the Company will adopt a more prudent investment strategy, 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 operation plan does not constitute a result guarantee of the Company to the investors. Investors should be fully aware of such risk and the difference between an operation plan and result guarantee.**

# DISCUSSION AND ANALYSIS OF OPERATIONS

## ANALYSIS ON CORE COMPETITIVENESS

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

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

## PLEDGE OF ASSETS

As at 30 June 2020, save for the assets with restricted ownership rights and rights in use as set out on page 71 of this report, the Group did not have any other material pledge on its assets.

## EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 1,517 employees as at 30 June 2020. The Group provided substantial remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC.

Our Company and its subsidiaries make contributions to municipal government retirement scheme for their respective qualified employees in the PRC. According to applicable PRC laws, both employers and employees are required to make contributions to the scheme at the specified rates pursuant to the rules of the scheme. The only obligation of our Company and its subsidiaries with respect to the scheme is to make the required contributions. The contributions payable under the scheme were properly accrued as at 30 June 2020.

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

## CAPITAL COMMITMENTS

As at 30 June 2020, apart from the commitments set out on page 87 of this report, the Group has no other major capital commitments.

## INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (30 June 2019: Nil).

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## CORPORATE GOVERNANCE

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

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

## MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

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

## REMUNERATION COMMITTEE

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

The Remuneration Committee consists of three members, namely Mr. Shum Shing Kei (Chairman of the Remuneration Committee) and Mr. Lin Yi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). As at the date of this report, the Remuneration Committee passed the resolutions by way of written resolutions approving, among others, the annual remuneration of an independent Director candidate.

## 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). As at the date of this report, the Nomination Committee passed the resolutions by way of written resolutions approving, among others, the nomination of an independent Director candidate.

## AUDIT COMMITTEE

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

The Audit Committee has three members, namely Mr. Shum Shing Kei (Chairman of the Audit Committee) and Mr. Lin Yi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). As at the date of this report, the Audit Committee held four meetings to review and approve, among others, the unaudited financial report for the year of 2019, audit report for the year 2019, self-assessment report on internal control for the year 2019, and the unaudited financial statements of first quarter and first half of 2020 of the Company.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2020, the interests and short positions of each Director, Supervisor and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be entered in the register pursuant to Section 352 of the SFO, or interests or short positions which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

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

Name of Director	Capacity	Number of A Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Mr. Zhang Shi Quan	Beneficial owner	26,391,580	4.61%	3.34%

### (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	RMB5,000,000	10%
Mr. Zhang Bao Yi	Beneficial owner	RMB15,000,000	30%
Mr. Tang Hao Han	Beneficial owner	RMB12,500,000	25%
Ms. Zhang Lan Jun	Beneficial owner	RMB12,500,000	25%
Mr. Zhang Shi Zhong	Beneficial owner	RMB5,000,000	10%

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.

Save as disclosed above, as at 30 June 2020, 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.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, so far as is known to the Directors of the Company, the following persons (other than the Directors, Supervisors and chief executive of the Company as disclosed above) had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### Long positions in Shares of the Company:

Name of Shareholders	Capacity	Number and class of Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Shibao Holding	Beneficial owner	341,786,098 A Shares	59.66%	43.28%

Save as disclosed above, as at 30 June 2020, the Directors are not aware of any other person (other than the Directors, Supervisors and chief executive of the Company as disclosed above) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

## SHARE OPTION SCHEME

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

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

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

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

\* For identification purposes only



# GLOSSARY

“Remuneration Committee”	remuneration committee of the Company
“Reporting Period” or “the Period”	1 January 2020 to 30 June 2020
“RMB”	Renminbi, the lawful currency of the PRC for the time being
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	A Share(s) and/or H Share(s)
“Shareholder(s)”	shareholder(s) of the Company
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange of the PRC
“Shibao Holding” or “Ultimate Holding Company” or “Controlling Shareholder”	Zhejiang Shibao Holding Group Co., Ltd., the controlling shareholder of the Company
“Supervisor(s)”	supervisor(s) of the Company
“Wuhu Sterling”	Wuhu Sterling Steering System Co., Ltd., a subsidiary controlled by the Company