



# 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

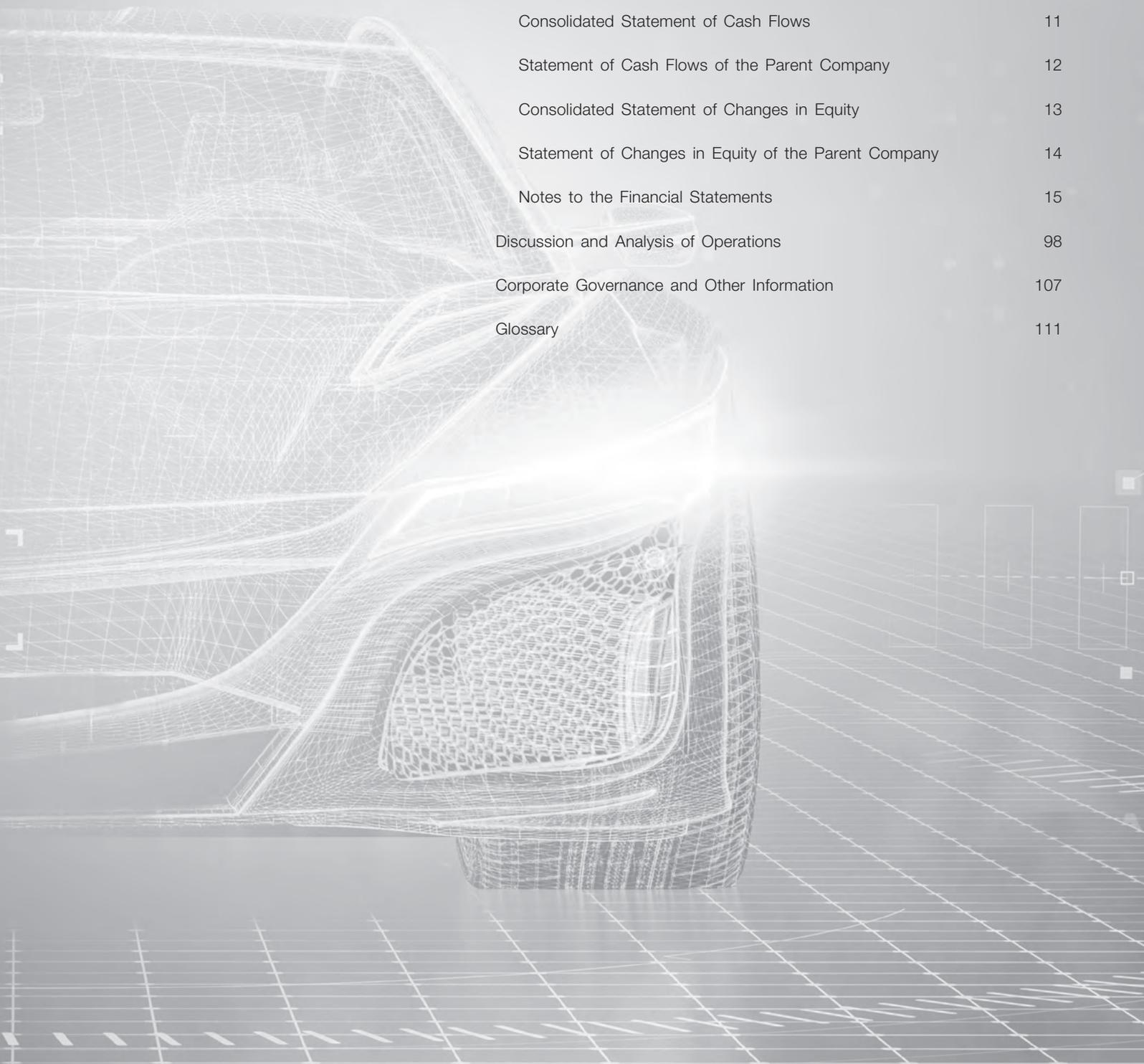
## STEERING THE FUTURE

2021 Interim Report



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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. Tsui Chun Shing (徐晉誠)
<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. Tsui Chun Shing (徐晉誠) ( <i>Chairman</i> ) Mr. Zhang Shi Zhong (張世忠) Mr. Lin Yi (林逸)
<b>Remuneration Committee</b>	Mr. Tsui Chun Shing (徐晉誠) ( <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. Tsui Chun Shing (徐晉誠) 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

**Principal Place of Business in Hong Kong**

Unit C, 5/F., Jonsim Place  
228 Queen's Road East, 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  
Yiji District, Wuhu, China

# CORPORATE INFORMATION

(English translation for reference only)

11/23

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

## Hong Kong H Share Registrar and Transfer Office

## Contact Information

### Corporate communication/Investor relations

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

### Company secretarial services

Ms. Huen Lai Chun (禰麗珍) *Company Secretary*  
Unit C, 5/F., Jonsim Place  
228 Queen's Road East, Wanchai, Hong Kong  
Tel.: +852 3104 8118  
Fax: +852 3104 8119  
Email: ir@shibaogroup.com

## Place of Listing

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

## Website

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

# KEY ACCOUNTING INFORMATION AND FINANCIAL INDICATORS

Item	January – June 2021	January – June 2020	Change
Operating revenue	<b>573,007,067.30</b>	487,253,473.33	17.60%
Net profit attributable to shareholders of listed company	<b>34,445,168.90</b>	17,075,548.93	101.72%
Net profit after non-recurring gains and losses attributable to shareholders of listed company	<b>17,441,840.67</b>	8,069,915.87	116.13%
Net cash flows from operating activities	<b>66,004,332.51</b>	46,602,751.59	41.63%
Basic earnings per share (RMB/Share)	<b>0.0436</b>	0.0216	101.85%
Diluted earnings per share (RMB/Share)	<b>0.0436</b>	0.0216	101.85%
Return on weighted average net assets	<b>2.53%</b>	1.30%	1.23%

Item	30 June 2021	31 December 2020	Change
Total assets	<b>2,020,572,528.10</b>	1,976,246,329.85	2.24%
Net assets attributable to shareholders of listed company	<b>1,377,126,129.24</b>	1,342,680,960.34	2.57%

# UNAUDITED INTERIM FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

## CONSOLIDATED BALANCE SHEET

30 June 2021

Item	30 June 2021	31 December 2020
<b>Current Assets:</b>		
Cash on hand and at bank	139,200,815.18	166,389,726.85
Financial assets held for trading	81,600,647.08	904,073.28
Notes receivable		239,784.00
Accounts receivable	351,833,601.70	325,598,747.08
Financing receivables	146,803,498.83	187,274,526.18
Prepayments	13,104,998.03	21,628,201.14
Other receivables	10,111,022.49	9,867,974.89
Inventories	304,993,280.44	254,371,320.73
Other current assets	11,731,636.56	14,077,655.52
Total current assets	1,059,379,500.31	980,352,009.67
<b>Non-current Assets:</b>		
Investment property	170,370,482.21	175,565,178.66
Fixed assets	627,154,741.23	668,272,431.63
Construction in progress	45,237,499.20	48,682,196.11
Intangible assets	80,875,506.91	81,281,828.17
Deferred income tax assets	12,985,968.21	12,805,998.28
Other non-current assets	24,568,830.03	9,286,687.33
Total non-current assets	961,193,027.79	995,894,320.18
<b>Total Assets</b>	<b>2,020,572,528.10</b>	<b>1,976,246,329.85</b>
<b>Current Liabilities:</b>		
Short-term borrowings	105,113,488.49	98,116,784.10
Notes payable	98,840,857.43	86,570,132.09
Accounts payable	301,771,897.32	318,745,234.60
Receipts in advance	7,976,976.32	14,978,858.81
Contract liabilities	30,794,517.35	9,954,761.23
Staff costs payable	17,782,863.49	20,138,767.07
Tax payable	3,111,315.51	8,337,187.92
Other payables	8,294,883.43	2,740,953.52
Other current liabilities	33,646,917.70	30,200,975.06
Total current liabilities	607,333,717.04	589,783,654.40
<b>Non-current Liabilities:</b>		
Long-term borrowings	8,800,000.00	8,800,000.00
Deferred income	40,319,679.21	45,985,366.36
Deferred income tax liabilities	2,359,111.08	2,438,113.16
Total non-current liabilities	51,478,790.29	57,223,479.52
Total liabilities	658,812,507.33	647,007,133.92

# CONSOLIDATED BALANCE SHEET

30 June 2021 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2021	31 December 2020
<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>269,767,778.26</b>	235,322,609.36
Total equity attributable to equity holders of the parent	<b>1,377,126,129.24</b>	1,342,680,960.34
Minority interests	<b>-15,366,108.47</b>	-13,441,764.41
Total equity	<b>1,361,760,020.77</b>	1,329,239,195.93
<b>Total Liabilities and Equity</b>	<b>2,020,572,528.10</b>	1,976,246,329.85

Legal representative  
Zhang Shi Quan

Chief Financial Officer  
Zhang Lan Jun

Head of Finance Section  
Li Gen Mei

# BALANCE SHEET OF THE PARENT COMPANY

30 June 2021 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	30 June 2021	31 December 2020
<b>Current Assets:</b>		
Cash on hand and at bank	29,459,322.50	33,661,087.01
Accounts receivable	96,661,515.75	84,910,548.59
Financing receivables	9,536,000.00	1,000,000.00
Prepayments	1,826,566.91	3,103,805.45
Other receivables	376,645,874.03	371,682,387.06
Inventories	31,484,145.72	30,823,924.56
Other current assets	3,659,547.82	6,733,793.89
Total current assets	549,272,972.73	531,915,546.56
<b>Non-current Assets:</b>		
Long-term receivables	248,000,000.00	248,000,000.00
Long-term equity investments	185,159,214.87	185,159,214.87
Investment property	155,677,515.22	160,661,349.35
Fixed assets	84,829,801.12	101,243,810.69
Construction in progress	3,830,358.89	3,170,716.05
Intangible assets	30,824,754.11	31,279,258.78
Deferred income tax assets	98,446.78	57,206.20
Other non-current assets	350,415.47	
Total non-current assets	708,770,506.46	729,571,555.94
<b>Total Assets</b>	<b>1,258,043,479.19</b>	<b>1,261,487,102.50</b>
<b>Current Liabilities:</b>		
Short-term borrowings	103,110,699.72	93,108,629.03
Notes payable	10,359,000.00	14,600,000.00
Accounts payable	24,980,864.38	29,718,890.29
Receipts in advance	7,976,976.32	14,978,858.81
Contract liabilities	4,330,693.16	5,330,819.18
Staff costs payable	1,469,435.64	1,406,798.08
Tax payable	1,693,764.05	3,555,068.64
Other payables	1,686,289.39	1,812,819.25
Other current liabilities	1,025,254.27	1,617,534.79
Total current liabilities	156,632,976.93	166,129,418.07
<b>Non-current Liabilities:</b>		
Deferred income	8,255,209.73	8,841,070.07
Total non-current liabilities	8,255,209.73	8,841,070.07
Total liabilities	164,888,186.66	174,970,488.14
<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	41,366,953.65	34,728,275.48
Total equity	1,093,155,292.53	1,086,516,614.36
<b>Total Liabilities and Equity</b>	<b>1,258,043,479.19</b>	<b>1,261,487,102.50</b>

Legal representative  
Zhang Shi Quan

Chief Financial Officer  
Zhang Lan Jun

Head of Finance Section  
Li Gen Mei

# CONSOLIDATED INCOME STATEMENT

30 June 2021 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	January – June 2021	January – June 2020
1. Total operating revenue	<b>573,007,067.30</b>	487,253,473.33
Including: Operating revenue	<b>573,007,067.30</b>	487,253,473.33
2. Total operating costs	<b>552,162,664.56</b>	478,908,322.76
Including: Operating costs	<b>432,128,626.46</b>	380,476,405.80
Business taxes and surcharges	<b>3,664,717.54</b>	5,428,686.09
Selling expenses	<b>36,884,049.52</b>	32,341,528.15
General and administrative expenses	<b>39,920,167.79</b>	28,181,865.03
Research and development expenses	<b>37,409,365.24</b>	30,195,081.30
Financial expenses	<b>2,155,738.01</b>	2,284,756.39
Including: Interest expenses	<b>2,637,148.39</b>	2,890,228.28
Interest income	<b>806,798.33</b>	708,020.72
Add: Other gains	<b>10,700,479.81</b>	7,289,544.16
Investment gains (“-” as loss)	<b>109,233.65</b>	218,395.08
Gains on fair value change (“-” for loss)	<b>103,195.91</b>	
Credit impairment losses (“-” as loss)	<b>2,341,205.34</b>	1,389,041.03
Assets impairment losses (“-” as loss)	<b>-5,924,039.51</b>	-5,357,716.11
Gains from disposal of assets (“-” as loss)	<b>5,527,482.78</b>	210,763.10
3. Operating profit (“-” as loss)	<b>33,701,960.72</b>	12,095,177.83
Add: Non-operating income	<b>133,020.52</b>	13,515.76
Less: Non-operating expenses	<b>118,173.85</b>	23,959.44
4. Total profit (“-” as total loss)	<b>33,716,807.39</b>	12,084,734.15
Less: Income tax expenses	<b>1,195,982.55</b>	-1,731,246.92
5. Net profit (“-” as net loss)	<b>32,520,824.84</b>	13,815,981.07
(1) Classification by business continuity		
1. Net profit from continuing operations (“-” as net loss)	<b>32,520,824.84</b>	13,815,981.07
(2) Classification by ownership		
1. Net profit attributable to equity holders of the parent	<b>34,445,168.90</b>	17,075,548.93
2. Minority interests	<b>-1,924,344.06</b>	-3,259,567.86
6. Other comprehensive income, net of tax		
7. Total comprehensive income	<b>32,520,824.84</b>	13,815,981.07
Total comprehensive income attributable to equity holders of the parent	<b>34,445,168.90</b>	17,075,548.93
Total comprehensive income attributable to minority shareholders	<b>-1,924,344.06</b>	-3,259,567.86
8. Earnings per share:		
(1) Basic earnings per share	<b>0.0436</b>	0.0216
(2) Diluted earnings per share	<b>0.0436</b>	0.0216

Legal representative  
Zhang Shi Quan

Chief Financial Officer  
Zhang Lan Jun

Head of Finance Section  
Li Gen Mei

# INCOME STATEMENT OF THE PARENT COMPANY

30 June 2021 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	January – June 2021	January – June 2020
1. Operating revenue	<b>73,838,416.29</b>	27,624,187.73
Less: Operating costs	<b>60,458,754.42</b>	24,402,815.80
Business taxes and surcharges	<b>132,719.90</b>	1,188,007.56
Selling expenses	<b>539,913.58</b>	563,303.09
General and administrative expenses	<b>7,417,152.60</b>	6,218,367.75
Research and development expenses	<b>5,495,669.73</b>	2,800,872.12
Financial expenses	<b>2,044,183.37</b>	2,312,869.57
Including: Interest expenses	<b>2,083,081.91</b>	2,383,052.51
Interest income	<b>56,051.80</b>	96,313.92
Add: Other gains	<b>1,266,850.39</b>	429,899.90
Investment gains (“-” as loss)	<b>2,407,889.16</b>	2,558,884.25
Credit impairment losses (“-” as loss)	<b>-15,815.93</b>	-102.67
Assets impairment losses (“-” as loss)	<b>-332,375.82</b>	-246,091.68
Gains from disposal of assets (“-” as loss)	<b>5,405,998.61</b>	
2. Operating profit (“-” as loss)	<b>6,482,569.10</b>	-7,119,458.36
Add: Non-operating income	<b>115,068.50</b>	4,075.47
Less: Non-operating expenses	<b>200.01</b>	3,400.00
3. Total profit (“-” as total loss)	<b>6,597,437.59</b>	-7,118,782.89
Less: Income tax expenses	<b>-41,240.58</b>	2,175.40
4. Net profit (“-” as net loss)	<b>6,638,678.17</b>	-7,120,958.29
(1) Net profit from continuing operations (“-” as net loss)	<b>6,638,678.17</b>	-7,120,958.29
5. Other comprehensive income, net of tax		
6. Total comprehensive income	<b>6,638,678.17</b>	-7,120,958.29
7. Earnings per share		

Legal representative  
Zhang Shi Quan

Chief Financial Officer  
Zhang Lan Jun

Head of Finance Section  
Li Gen Mei

# CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2021 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	January – June 2021	January – June 2020
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	<b>367,096,581.67</b>	274,033,775.48
Return of taxes and levies	<b>11,650,264.77</b>	8,213,839.98
Cash received relating to other operating activities	<b>39,760,515.07</b>	18,674,201.88
Sub-total of cash inflow	<b>418,507,361.51</b>	300,921,817.34
Cash paid for purchase of goods and acceptance of services	<b>172,093,216.74</b>	104,999,540.89
Cash paid to and on behalf of employees	<b>98,127,909.77</b>	69,253,054.49
Payment of taxes and levies	<b>24,800,856.48</b>	17,750,876.69
Cash paid relating to other operating activities	<b>57,481,046.01</b>	62,315,593.68
Sub-total of cash outflow	<b>352,503,029.00</b>	254,319,065.75
Net cash flows from operating activities	<b>66,004,332.51</b>	46,602,751.59
2. Cash flows from investing activities:		
Cash received from return of investments	<b>60,000,000.00</b>	100,420,000.00
Cash received from investment gains	<b>118,563.97</b>	231,118.53
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<b>15,010,182.54</b>	3,338,530.26
Sub-total of cash inflow	<b>75,128,746.51</b>	103,989,648.79
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	<b>33,941,567.48</b>	56,763,582.31
Cash paid for investments	<b>140,000,000.00</b>	30,200,000.00
Sub-total of cash outflow	<b>173,941,567.48</b>	86,963,582.31
Net cash flows from investing activities	<b>-98,812,820.97</b>	17,026,066.48
3. Cash flows from financing activities:		
Cash received from borrowings	<b>118,000,000.00</b>	223,000,000.00
Sub-total of cash inflow	<b>118,000,000.00</b>	223,000,000.00
Cash paid for debt repayments	<b>111,000,000.00</b>	240,000,000.00
Cash paid for distribution of dividend and profit or payment of interest expenses	<b>2,640,444.00</b>	2,942,394.24
Sub-total of cash outflow	<b>113,640,444.00</b>	242,942,394.24
Net cash flows from financing activities	<b>4,359,556.00</b>	-19,942,394.24
4. Effect of changes in foreign exchange rate on cash and cash equivalents	<b>-204,904.12</b>	313,568.86
5. Net increase in cash and cash equivalents	<b>-28,653,836.58</b>	43,999,992.69
Add: Opening balance of cash and cash equivalents	<b>145,050,218.49</b>	117,113,481.79
6. Closing balance of cash and cash equivalents	<b>116,396,381.91</b>	161,113,474.48

Legal representative  
Zhang Shi Quan

Chief Financial Officer  
Zhang Lan Jun

Head of Finance Section  
Li Gen Mei

# STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

30 June 2021 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	January – June 2021	January – June 2020
1. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	<b>63,378,711.28</b>	41,257,625.57
Return of taxes and levies	<b>4,797,201.77</b>	5,098,907.74
Cash received relating to other operating activities	<b>6,804,743.68</b>	34,512,816.27
Sub-total of cash inflow	<b>74,980,656.73</b>	80,869,349.58
Cash paid for purchase of goods and acceptance of services	<b>34,961,987.22</b>	14,078,465.98
Cash paid to and on behalf of employees	<b>9,677,116.34</b>	7,616,714.72
Payment of taxes and levies	<b>6,971,563.81</b>	460,672.85
Cash paid relating to other operating activities	<b>35,381,293.89</b>	6,108,475.91
Sub-total of cash outflow	<b>86,991,961.26</b>	28,264,329.46
Net cash flows from operating activities	<b>-12,011,304.53</b>	52,605,020.12
2. Cash flows from investing activities:		
Cash received from return of investments		70,000,000.00
Cash received from investment gains		160,054.80
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<b>12,415,251.51</b>	
Cash received relating to other investing activities		80,000,000.00
Sub-total of cash inflow	<b>12,415,251.51</b>	150,160,054.80
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	<b>9,989,700.27</b>	35,880,791.66
Cash paid relating to other investing activities		80,000,000.00
Sub-total of cash outflow	<b>9,989,700.27</b>	115,880,791.66
Net cash flows from investing activities	<b>2,425,551.24</b>	34,279,263.14
3. Cash flows from financing activities:		
Cash received from borrowings	<b>118,000,000.00</b>	213,000,000.00
Sub-total of cash inflow	<b>118,000,000.00</b>	213,000,000.00
Cash paid for debt repayments	<b>108,000,000.00</b>	233,000,000.00
Cash paid for distribution of dividend and profit or payment of interest expenses	<b>2,081,011.22</b>	2,439,533.54
Sub-total of cash outflow	<b>110,081,011.22</b>	235,439,533.54
Net cash flows from financing activities	<b>7,918,988.78</b>	-22,439,533.54
4. Effect of changes in foreign exchange rate on cash and cash equivalents		-1,971.46
5. Net increase in cash and cash equivalents	<b>-1,666,764.51</b>	64,442,778.26
Add: Opening balance of cash and cash equivalents	<b>29,281,087.01</b>	25,194,396.30
6. Closing balance of cash and cash equivalents	<b>27,614,322.50</b>	89,637,174.56

Legal representative  
Zhang Shi Quan

Chief Financial Officer  
Zhang Lan Jun

Head of Finance Section  
Li Gen Mei

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2021 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	January - June 2021						
	Attributable to equity holders of the parent						
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total	Minority interests	Total equity
1. Balance at the end of last year	789,644,637.00	182,334,093.78	135,379,620.20	235,322,609.36	1,342,680,960.34	-13,441,764.41	1,329,239,195.93
2. Balance at the beginning of year	789,644,637.00	182,334,093.78	135,379,620.20	235,322,609.36	1,342,680,960.34	-13,441,764.41	1,329,239,195.93
3. Increase/decrease during the period ("-" as decrease)				34,445,168.90	34,445,168.90	-1,924,344.06	32,520,824.84
(1) Total comprehensive income				34,445,168.90	34,445,168.90	-1,924,344.06	32,520,824.84
4. Balance at the end of the period	789,644,637.00	182,334,093.78	135,379,620.20	269,767,778.26	1,377,126,129.24	-15,366,108.47	1,361,760,020.77

Item	January - June 2020						
	Attributable to equity holders of the parent						
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total	Minority interests	Total equity
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

Legal representative  
Zhang Shi Quan

Chief Financial Officer  
Zhang Lan Jun

Head of Finance Section  
Li Gen Mei

# STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

30 June 2021 | (RMB Yuan, unless otherwise stated) | (English translation for reference only)

Item	January – June 2021				
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total equity
1. Balance at the end of last year	789,644,637.00	187,767,058.72	74,376,643.16	34,728,275.48	1,086,516,614.36
2. Balance at the beginning of year	789,644,637.00	187,767,058.72	74,376,643.16	34,728,275.48	1,086,516,614.36
3. Increase/decrease during the period ("–" as decrease)				6,638,678.17	6,638,678.17
(1) Total comprehensive income				6,638,678.17	6,638,678.17
4. Balance at the end of the period	<u>789,644,637.00</u>	<u>187,767,058.72</u>	<u>74,376,643.16</u>	<u>41,366,953.65</u>	<u>1,093,155,292.53</u>

Item	January – June 2020				
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total equity
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 the period	<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>

Legal representative  
Zhang Shi Quan

Chief Financial Officer  
Zhang Lan Jun

Head of Finance Section  
Li Gen Mei

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (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 2nd meeting of the seventh session of the Board of the Company on 20 August 2021.

The Company has included six subsidiaries to the consolidated financial report, i.e. Hangzhou Shibao Auto Steering Gear Co., Ltd., Hangzhou New Shibao Electric Power Steering Co., Ltd., Jilin Shibao Machinery Manufacturing Co., Ltd., Beijing Autonics Technology Co., Ltd., Wuhu Sterling Steering System Co., Ltd. and Erdos Sterling Steering System Co., Ltd.. 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 2021 | (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 2021 | (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 2021 | (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 2021 | (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 2021 | (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 2021 | (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 other receivables		
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 2021 | (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 2021 | (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 2021 | (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 2021 | (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

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

### (15) Fixed Assets

#### 1. Recognition of fixed assets

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

#### 2. Depreciation of fixed assets

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

### (16) Construction in Progress

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

### (17) Borrowing Costs

#### 1. Capitalization of borrowing costs

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

#### 2. Timing of borrowing costs capitalization

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (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

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

### (19) Intangible Assets

1. Intangible assets, including land use rights, patent rights and non-patented technologies, are initially measured at cost.
2. Intangible assets with definite useful lives are reasonably amortized over their useful lives based on the pattern of the economic benefits relating to the intangible assets are expected to be realised. Intangible assets whose economic benefits realization pattern cannot be reliably anticipated are amortised on a straight-line basis over the following useful life:

Item	Estimated useful life (year)
Land use rights	50
Patented technology	10
Non-patented technology	5-10
Management software	5

3. Expenditures for internal research and development activities are expensed in the period as incurred. The expenses of internal research and development projects during the development stage are recognised as intangible assets when all of the following conditions are satisfied: (1) The completion of such intangible assets for use or sale is technically feasible; (2) The Company has the intention to use or sell the intangible assets upon completion; (3) The way in which the intangible assets bring economic benefits shows that there exists consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilisation; (4) The Company has sufficient technological, financial and other resources to complete the development of the intangible assets and the ability to make them available for use or sale; (5) The expenses attributable to such intangible assets can be measured reliably at the development stage.

### (20) Partial Long-Term Asset Impairment

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

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

### (21) Long-term deferred expenses

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

### (22) Staff Costs

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

### **(22) Staff Costs** *(continued)*

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

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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

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

### **(24) Revenue** *(continued)*

#### 2. Revenue measurement

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

#### 3. Methods of revenue recognition

##### *Revenue recognition at a point in time*

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

### **(25) Government Grants**

1. The government grants are recognised when (1) the Company is able to comply with the conditions attaching to the government grants; (2) the Company is able to receive the government grants. Government grants which are monetary assets are measured at the amount received or receivable. Government grants which are non-monetary assets are measured at fair value, or at nominal amount if the fair value cannot be reliably measured.
2. Judgment basis and accounting methods on the government grants relating to assets  
Government grants which shall be used for constructing or otherwise forming long-term assets as specified in government documents are classified as government grants related to assets. In the absence of specific requirements in government documents, the determination is made according to basic conditions for obtaining the grants; if constructing or otherwise forming long-term assets is treated as a basic condition, the grants are classified as government grants related to assets. Government grants relating to assets are offset against the carrying amount of such assets or recognised as deferred income. Government grants relating to assets recognised as deferred income are included in profit or loss on a reasonable and systematic basis over the useful lives of the relevant assets. Government grants measured at notional amount are directly recorded in profit or loss. For assets sold, transferred, disposed or damaged prior to the end of their useful lives, balance of unallocated deferred income is transferred to profit or loss for the period in which the disposal occurred.
3. Judgment basis and accounting methods on the government grants relating to revenue  
Other than government grants pertinent to assets, other government grants are government grants pertinent to income. The Company classifies government grants that contain both assets-related and income-related portion or those that are difficult to distinguish as the ones related to income on an entire basis. Government grants relating to income and applied towards reimbursement of related costs or losses in subsequent periods are recognised as deferred income and taken to current profit or loss or offset the related costs for the period in which the related costs or losses are recognised. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognised in current profit or loss or offset the related costs.
4. Government grants related to the Company's daily operations are included in other income or offset against relevant expenses according to the economic nature of business. Government grants that are not related to the Company's daily operations are included in the non-operating income or expenses.

### **(26) Contract assets, Contract liabilities**

The Company presents contract assets or contract liabilities in the balance sheet based on the relationship between performance obligations and customer payments. The Company presents contract assets and contract liabilities under the same contract as net amount after they offset each other.

The Company presents the right of the Company to charge consideration from the customer unconditionally (i.e. only depends on the passage of time) as a receivable, while the consideration that the Company has the right (and this right depends on factors other than passage of time) to receive for goods transferred to customers is presented as a contract assets.

The Company presents the portion of the obligation to transfer goods to customers for consideration received or receivable from customers as a contract liability.

# NOTES TO THE FINANCIAL STATEMENTS

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

### **(27) 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.

### **(28) 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.

# NOTES TO THE FINANCIAL STATEMENTS

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

### **(28) Leases** *(continued)*

#### 3. Accounting method for the Company as a lessee *(continued)*

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 lease modification (the Company as a lessee)

##### *(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*

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 shortens 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)*

### **(28) Leases** *(continued)*

#### 5. 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.

##### *(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.

#### 6. Accounting method for lease modification (The Company as a lessor)

##### *(1) Operating leases*

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*

###### 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

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.

# NOTES TO THE FINANCIAL STATEMENTS

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

### **(29) 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.

### **(30) 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)*

### **(31) 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 (27) 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)	Output VAT is calculated on product sales and taxable services revenue, based on tax laws. The remaining balance of output VAT, after deducting the deductible input VAT of the period, is VAT payable	13%, 9%, 6%, 5% (Note 1)
Property tax	Price based tax: 1.2% of the residual value after deducting 30% from the original value of the property; rental income based tax: 12% of the rental income	1.2%, 12%
Urban maintenance and construction tax	Actual amount of payable turnover tax	7%, 5%
Education surcharge	Actual amount of payable turnover tax	3%
Local education surcharge	Actual amount of payable turnover tax	2%
Corporate income tax	Amount of taxable profit	15%, 25% (Note 2)

(Note 1): Sale of the steering systems, parts and other commodities by the Company and its subsidiaries has been subject to the value-added tax (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 being subsidiaries of the Company, and the export rebate rate on export goods was 13%. The transfer of patented technologies and provision of services by the Company and its subsidiaries have been subject to the VAT at the rate of 6%. Leasing of properties acquired prior to 30 April 2016 by the Company and its subsidiaries, Hangzhou New Shibao Electric Power Steering Co., Ltd. and Beijing Autonics Technology Co., Ltd., has been subject to the VAT at the simplified rate of 5%, while leasing of the properties acquired after 30 April 2016 has been subject to the VAT at the rate of 9%.

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

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

### (2) Tax concession

1. According to the “Letter Regarding 2020 1st Batch Filing of High-tech Enterprises of Zhejiang Province” issued by the Leading Group Office of National High-tech Enterprises Recognition and Management (CTP No. 2020 251), the Company, 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. GR202033006037, GR202033002842 and GR202033003507 respectively) during 2020, with a valid period from 2020 to 2022. They are subject to a corporate income tax rate of 15% during the period.
2. According to the “Letter Regarding 2020 Fourth Batch Filing of High-tech Enterprises of Beijing” issued by the Leading Group Office of National High-tech Enterprises Recognition and Management (CTP No. [2021] 38), the Company’s subsidiary, Beijing Autonics Technology Co., Ltd. obtained the High-tech Enterprise Certificate (No. GR202011007797), with a valid period from 2020 to 2022. It is subject to a corporate income tax rate of 15% during the period.

# NOTES TO THE FINANCIAL STATEMENTS

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## 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 2020" (Ke Gao No. 2020 35) issued by the Anhui Provincial Department of Science and Technology, Anhui Provincial Department of Finance, Anhui Provincial Office, SAT and Anhui Local Taxation Bureau, the Company's subsidiary, Wuhu Sterling Steering System Co., Ltd. obtained the High-tech Enterprise Certificate (No. GR202034000075) during 2020, with a valid period from 2020 to 2022. It is subject to a corporate income tax rate of 15% during the period.
4. According to the Announcement on Policies for Deepening the VAT Reform (Announcement 2019 No.39) issued by the Ministry of Finance, State Taxation Administration and General Administration of Customs, the Company meets the conditions for return of the deductible input VAT as at the end of the period, and the deductible input VAT returned during January to June 2021 was RMB572,736.02.

## 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	148,554.69	183,947.81
Bank deposits	116,247,827.22	144,866,270.68
Other monetary funds	22,804,433.27	21,339,508.36
Total		
Including: the total amount of money placed overseas	139,200,815.18	166,389,726.85

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

Other monetary funds at the end of the period represents the guarantee deposits of RMB11,770,345.96 for the issuance of the bank acceptance bills and its subsidiaries, Hangzhou New Shibao Electric Power Steering Co., Ltd. and Jilin Shibao Machinery Manufacturing Co., Ltd., have frozen funds for litigation amounting to RMB11,034,087.31.

#### 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	81,600,647.08	904,073.28
Including:		
Equity instrument investment	1,600,647.08	904,073.28
bank short-term wealth management products	80,000,000.00	
Total	81,600,647.08	904,073.28

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 2. Financial assets held for trading (continued)

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

As at 30 June 2021, the Company has various wealth management products purchased from China CITIC Bank and Hua Xia Bank Co., Ltd. (華夏銀行股份有限公司), with a total amount of RMB80,000,000.00. The above wealth management products were bank short-term wealth management products, which could be redeemed at any time.

##### (3) Statement on investment in equity instruments

As of 30 June 2021, its subsidiary, Hangzhou Shibao Auto Steering Gear Co., Ltd., holds 305,467.00 shares of Lifan Technology (Group) Co., Ltd. (Stock short name: ST Lifan). The fair value of the shares at the end of the period is RMB5.24 per share, and the investment value of the equity instrument held at the end of the period is RMB1,600,647.08.

#### 3. Notes receivable

##### (1) Breakdown

##### 1) Breakdown by types

Type	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Provision (%)	
Provision for bad debt by groups	240,000.00	100.00	216.00	0.09	239,784.00
Including: commercial acceptance bills	240,000.00	100.00	216.00	0.09	239,784.00
Total	240,000.00	100.00	216.00	0.09	239,784.00

##### (2) 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	
Commercial acceptance bills	216.00	-216.00						
Sub-total	216.00	-216.00						

2) There is no provision for bad debts recovered or reversed during the period.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 4. Accounts receivable

##### (1) Breakdown

##### 1) Breakdown by types

Type	Balance at the end of the period				Book value
	Carrying amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision (%)	
Bad debt provision on individual basis	47,802,429.68	11.91	47,802,429.68	100.00	
Bad debt provision by groups	353,574,013.20	88.09	1,740,411.50	0.49	351,833,601.70
<b>Total</b>	<b>401,376,442.88</b>	<b>100.00</b>	<b>49,542,841.18</b>	<b>12.34</b>	<b>351,833,601.70</b>

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	50,553,813.48	13.35	50,553,813.48	100.00	
Bad debt provision by groups	328,161,252.30	86.65	2,562,505.22	0.78	325,598,747.08
<b>Total</b>	<b>378,715,065.78</b>	<b>100.00</b>	<b>53,116,318.70</b>	<b>14.03</b>	<b>325,598,747.08</b>

##### 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
		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	12,337,602.28	12,337,602.28	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)	6,646,258.01	6,646,258.01	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	4,719,302.01	4,719,302.01	100.00	The amount was not expected to be recovered in whole
Total of other entities	8,925,384.86	8,925,384.86	100.00	The amount was not expected to be recovered in whole
<b>Total</b>	<b>47,802,429.68</b>	<b>47,802,429.68</b>	<b>100.00</b>	

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 4. Accounts receivable (continued)

##### (1) Breakdown (continued)

##### 3) 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	346,599,132.98	311,939.22	0.09
1-2 years	4,631,744.00	255,672.27	5.52
2-3 years	1,522,883.83	352,547.62	23.15
Over 3 years	820,252.39	820,252.39	100.00
Total	<u>353,574,013.20</u>	<u>1,740,411.50</u>	<u>0.49</u>

##### (2) Aging analysis

Age	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for bad debts	Provision (%)	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year	347,660,419.58	1,373,225.82	0.39	316,183,564.27	518,590.14	0.16
1-2 years	6,193,941.77	1,817,870.04	29.35	31,270,449.93	23,611,297.55	75.51
2-3 years	32,721,544.02	31,551,207.81	96.42	23,679,568.76	21,404,948.19	90.39
Over 3 years	14,800,537.51	14,800,537.51	100.00	7,581,482.82	7,581,482.82	100.00
Sub-total	<u>401,376,442.88</u>	<u>49,542,841.18</u>	<u>12.34</u>	<u>378,715,065.78</u>	<u>53,116,318.70</u>	<u>14.03</u>

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

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

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

Item	Balance at the beginning of the period	Increase during the period			Decrease during the period			Balance at the end of the period
		Provision	Recovery	Others	Reversal	Write-off	Others	
Bad debt provision on individual basis	50,553,813.48				1,518,895.62	1,232,488.18		47,802,429.68
Bad debt provision by groups	2,562,505.22	-822,093.72						1,740,411.50
Sub-total	<u>53,116,318.70</u>	<u>-822,093.72</u>			<u>1,518,895.62</u>	<u>1,232,488.18</u>		<u>49,542,841.18</u>

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 4. Accounts receivable (continued)

(4) Significant amounts of provision for bad debts recovered or reversed during the period

Company Name	Amounts recovered or reversed	The way of receiving funds
Chongqing Lifan Passenger Vehicle Co., Ltd. Beibei Branch (重慶力帆乘用車有限公司北碚分公司)	693,377.89	Receiving funds by bank transfer, share for debt repayment
Guian Sitech Electric Auto Industry Co., Ltd. (貴安新區新特電動汽車工業有限公司)	578,819.17	Receiving funds by bank transfer
Sub-total	<u>1,272,197.06</u>	

(5) Accounts receivable written off during the period

- During the period, accounts receivable in an amount of RMB1,232,488.18 were written off.
- Important accounts receivable written off during the period

Name	Nature of the receivables	Amount written off	Reason for the write-off	Write-off procedure	Did a related party transaction occur in respect of the payment
Chongqing Lifan Passenger Vehicle Co., Ltd. Beibei Branch	Accounts receivable from sales of goods	1,232,488.18	The amount was not to be recovered	Approved by the Management	No
Sub-total		<u>1,232,488.18</u>			

(6) 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)	63,332,696.75	15.78	94,327.26
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	40,457,066.23	10.08	36,411.36
FAW Jiefang Automobile Co., Ltd. (一汽解放汽車有限公司)	31,671,847.85	7.89	28,504.66
Anhui Jianghuai Automobile Group Corp., Ltd. (安徽江淮汽車集團股份有限公司)	21,629,302.27	5.39	64,051.86
Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司)	17,241,149.98	4.30	15,517.03
Sub-total	<u>174,332,063.08</u>	<u>43.44</u>	<u>238,812.17</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 5. Financing receivables

##### (1) Breakdown

##### 1) Breakdown by type

Item	Initial cost	Balance at the end of the period			Carrying amount	Impairment provision
		Interest adjustment	Interest accrued	Change in the fair value		
Notes receivable	146,803,498.83				146,803,498.83	
Total	146,803,498.83				146,803,498.83	

Item	Initial cost	Balance at the beginning of the period			Carrying amount	Impairment provision
		Interest adjustment	Interest accrued	Change in the fair value		
Notes receivable	187,274,526.18				187,274,526.18	
Total	187,274,526.18				187,274,526.18	

##### 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	146,803,498.83		
Sub-total	146,803,498.83		

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

Item	Pledged amount at the end of the period
Bank acceptance bills	49,630,146.00
Sub-total	49,630,146.00

##### (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	289,967,868.42
Sub-total	289,967,868.42

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)

#### 6. Prepayments

##### (1) Aging analysis

##### 1) Breakdown

Aging	Balance at the end of the period			Balance at the beginning of the period			
	Carrying amount	(%)	Book value	Carrying amount	(%)	Provision for bad debts	Book value
Within 1 year	11,774,091.08	89.84	11,774,091.08	20,053,591.85	92.72		20,053,591.85
1-2 years	1,330,906.95	10.16	1,330,906.95	1,574,609.29	7.28		1,574,609.29
Total	13,104,998.03	100.00	13,104,998.03	21,628,201.14	100.00		21,628,201.14

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

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

Name	Carrying amount	Percentage of the prepayments (%)
Shanghai B.I.W. Machinery & Electrical Equipment Co., LTD (上海寶宜威機電有限公司)	1,459,000.00	11.13
ZheJiang Connor Technology Co., Ltd (浙江康勒科技有限公司)	878,574.00	6.70
Zhuji Gaohua Machinery Parts Co., Ltd.	674,573.74	5.15
Yuhuan Zhao Xu Machinery Manufacturing Co., Ltd. (玉環昭旭機械製造有限公司)	551,605.31	4.21
National Grid Jilin Province Electric Power Supply Company (國網吉林省電力有限公司)	542,182.58	4.14
Total	4,105,935.63	31.33

# 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)

#### 7. Other receivables

##### (1) Breakdown

##### 1) Breakdown by types

Types	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	2,225,884.71	21.26	358,779.64	16.12	1,867,105.07
Including: other receivables	2,225,884.71	21.26	358,779.64	16.12	1,867,105.07
Provision for bad debts by groups	8,243,917.42	78.74			8,243,917.42
Including: other receivables	8,243,917.42	78.74			8,243,917.42
Total	<u>10,469,802.13</u>	<u>100</u>	<u>358,779.64</u>	<u>3.43</u>	<u>10,111,022.49</u>

Types	Balance at the beginning of the period				
	Carrying amount		Provision for bad debts		Book value
	Amount	(%)	Amount	Provision (%)	
Bad debt provision on individual basis	3,602,625.40	35.23	358,779.64	9.96	3,243,845.76
Including: other receivables	3,602,625.40	35.23	358,779.64	9.96	3,243,845.76
Provision for bad debts by groups	6,624,129.13	64.77			6,624,129.13
Including: other receivables	6,624,129.13	64.77			6,624,129.13
Total	<u>10,226,754.53</u>	<u>100.00</u>	<u>358,779.64</u>	<u>3.51</u>	<u>9,867,974.89</u>

##### 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				
Hangzhou Economic and Technology Development Zone Taxation Bureau of State Taxation Administration	1,867,105.07			It is the receivables from export tax refund declared in accordance with relevant tax regulations, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, there is no expected credit loss.
Shenzhen Haoyuan Technology Company Limited	358,779.64	358,779.64	100.00	The amount was not expected to be recovered in whole
Sub-total	<u>2,225,884.71</u>	<u>358,779.64</u>	<u>16.12</u>	

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 7. 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	300,886.00		
Imprest receivable and etc.	4,717,791.42		
Sub-total	8,243,917.42		

##### (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	5,095,468.59			5,292,462.21		
1-2 years	591,688.10			470,045.64		
2-3 years	891,727.71			654,566.97		
Over 3 years	3,890,917.73	358,779.64	9.22	3,809,679.71	358,779.64	9.42
Sub-total	10,469,802.13	358,779.64	3.43	10,226,754.53	358,779.64	3.51

##### (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)

#### 7. 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	300,886.00	268,756.00
Receivables from export tax refund	1,867,105.07	3,243,845.76
Government provisional borrowings	3,225,240.00	3,225,240.00
Imprest	3,741,724.22	2,354,039.94
Others	1,334,846.84	1,134,872.83
Total	10,469,802.13	10,226,754.53

(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	30.81	
Hangzhou Economic and Technology Development Zone Taxation Bureau of State Taxation Administration (國家稅務總局杭州經濟技術開發區稅務局)	Receivables from export tax refund	1,867,105.07	within 1 year	17.83	
Panfara Construction Group Co., Ltd. (八方建設集團有限公司)	Other	458,360.19	2-3 years	4.38	
Zhang Xiaogang (張曉剛)	Imprest	332,520.00	within 1 year	3.18	
Wang Xiang (王翔)	Imprest	300,000.00	within 1 year	2.87	
Sub-total		6,183,225.26		59.07	

## 8. 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	111,616,345.60	15,020,483.31	96,595,862.29	103,453,781.03	14,430,460.87	89,023,320.16
Work-in-progress	44,743,053.67		44,743,053.67	13,314,116.54		13,314,116.54
Finished goods	177,764,152.53	20,005,317.98	157,758,834.55	165,460,627.17	20,306,735.02	145,153,892.15
Low-value consumables	7,437,234.04	1,541,704.11	5,895,529.93	8,339,311.67	1,459,319.79	6,879,991.88
Total	341,560,785.84	36,567,505.40	304,993,280.44	290,567,836.41	36,196,515.68	254,371,320.73

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 8. 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	14,430,460.87	1,797,618.50		1,207,596.06		15,020,483.31
Finished goods	20,306,735.02	3,867,359.66		4,168,776.70		20,005,317.98
Low-value consumables	1,459,319.79	259,061.35		176,677.03		1,541,704.11
Sub-total	36,196,515.68	5,924,039.51		5,553,049.79		36,567,505.40

##### 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 (Note)	Increase in the net realizable value of inventories with provision for inventory obsolescence for prior periods	During the current period, inventories with provision for inventory obsolescence at the beginning of the period were sold

Note: The Company took stock of the inventories kept for the customers to whom we have suspended goods supply due to their financial difficulty (customers for whom bad debt provision for accounts receivable has been made on individual basis as set out in Note 5(1)4 to the financial statements), and made provision for inventory obsolescence for inventories that were not expected to bring benefits through sale or use. The rest of the inventories were measured at the lower of their costs or net realizable value, and provision for inventory obsolescence were made when the net realizable value was lower than the costs.

#### 9. Other current assets

Item	Balance at the end of the period	Balance at the beginning of the period
VAT input tax recoverable	7,845,103.41	11,419,196.88
Prepaid corporate income tax	3,488,389.04	2,658,458.64
Other prepaid taxes	7,499.34	
Prepaid expenses	390,644.77	
Total	11,731,636.56	14,077,655.52

# 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)

#### 10. Investment property

##### (1) Breakdown

Item	Buildings	Land use right	Total
Original carrying amount			
Balance at the beginning of the period	182,400,999.69	8,255,372.00	190,656,371.69
Increase during the period	2,369,605.24		2,369,605.24
1) Transfer from fixed assets	2,369,605.24		2,369,605.24
Decrease during the period	7,837,921.10	8,255,372.00	16,093,293.10
1) Transfer to fixed assets	7,837,921.10	8,255,372.00	16,093,293.10
Balance at the end of the period	176,932,683.83		176,932,683.83
Accumulated depreciation and accumulated amortization			
Balance at the beginning of the period	10,857,983.43	4,233,209.60	15,091,193.03
Increase during the period	2,811,058.72	28,521.04	2,839,579.76
1) Provision or amortisation	2,811,058.72	28,521.04	2,839,579.76
Decrease during the period	7,106,840.53	4,261,730.64	11,368,571.17
1) Transfer to fixed assets	7,106,840.53	4,261,730.64	11,368,571.17
Balance at the end of the period	6,562,201.62		6,562,201.62
Carrying amount			
Carrying amount at the end of the period	170,370,482.21	0.00	170,370,482.21
Carrying amount at the beginning of the period	171,543,016.26	4,022,162.40	175,565,178.66

##### (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)	14,692,966.99	Still under process
Sub-total	14,692,966.99	

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 11. 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	349,896,292.96	866,587,604.62	19,024,016.51	26,981,333.69	1,262,489,247.78
Increase during the period	11,082,100.12	11,578,101.36	853,951.10	1,443,410.59	24,957,563.17
(1) Purchase	87,155.96	4,100,712.59	638,021.90	1,357,891.12	6,183,781.57
(2) Transfer from construction in progress	3,157,023.06	7,477,388.77	215,929.20	85,519.47	10,935,860.50
(3) Transfer from investment property	7,837,921.10				7,837,921.10
Decrease during the period	9,894,998.97	28,317,248.78	2,214,435.72	19,320.00	40,446,003.47
(1) Disposal or write-off	7,525,393.73	28,317,248.78	2,214,435.72	19,320.00	38,076,398.23
(2) Transfer to investment property	2,369,605.24				2,369,605.24
Balance at the end of the period	351,083,394.11	849,848,457.20	17,663,531.89	28,405,424.28	1,247,000,807.48
<b>Accumulated depreciation</b>					
Balance at the beginning of the period	79,866,377.63	481,457,358.67	12,899,101.28	18,922,736.57	593,145,574.15
Increase during the period	12,195,645.37	29,934,521.97	1,078,119.76	939,387.90	44,147,675.00
(1) Provision	5,088,804.84	29,934,521.97	1,078,119.76	939,387.90	37,040,834.47
(2) Transfer from investment property	7,106,840.53				7,106,840.53
Decrease during the period	6,809,939.53	9,695,978.57	1,994,152.80	18,354.00	18,518,424.90
(1) Disposal or write-off	6,809,939.53	9,695,978.57	1,994,152.80	18,354.00	18,518,424.90
Balance at the end of the period	85,252,083.47	501,695,902.07	11,983,068.24	19,843,770.47	618,774,824.25
<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 end of the period	265,005,593.25	347,907,030.52	5,680,463.65	8,561,653.81	627,154,741.23
Balance at the beginning of the period	269,204,197.94	384,884,721.34	6,124,915.23	8,058,597.12	668,272,431.63

##### (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	19,916,839.58	Still under process
The New Shibao (Phase 2) plant (self use)	3,653,482.44	Still under process
Sub-total	23,570,322.02	

# 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. Construction in progress

##### (1) Breakdown

Project name	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
The precious casting and processing of automotive components project	<b>18,731,820.10</b>		<b>18,731,820.10</b>	25,587,256.57		25,587,256.57
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	<b>2,109,038.39</b>		<b>2,109,038.39</b>	2,236,166.71		2,236,166.71
The annual output of electric power steering for new energy vehicles will increase by 200,000 units Technical transformation project	<b>5,266,057.46</b>		<b>5,266,057.46</b>	2,661,958.27		2,661,958.27
Other sundry projects	<b>19,130,583.25</b>		<b>19,130,583.25</b>	18,196,814.56		18,196,814.56
<b>Total</b>	<b>45,237,499.20</b>		<b>45,237,499.20</b>	48,682,196.11		48,682,196.11

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

Project name	Budget (RMB'0,000)	Balance at		Transfer to fixed assets	Transfer to investment property	Balance at the end of the period
		the beginning of the period	Increase during the period			
The precious casting and processing of automotive components project	235,36.41	25,587,256.57		6,855,436.47		<b>18,731,820.10</b>
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	811,41.67	2,236,166.71		127,128.32		<b>2,109,038.39</b>
The annual output of electric power steering for new energy vehicles will increase by 200,000 units Technical transformation project	3,202.00	2,661,958.27	2,783,745.21	179,646.02		<b>5,266,057.46</b>
Other sundry projects		18,196,814.56	4,707,418.38	3,773,649.69		<b>19,130,583.25</b>
<b>Total</b>		48,682,196.11	7,491,163.59	10,935,860.50		<b>45,237,499.20</b>

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	61.60	70				Internal fund Fund raising
The annual production of 1,200,000 automotive intelligent steering assembly technology transformation project	4.91	10				Internal fund
The annual output of electric power steering for new energy vehicles will increase by 200,000 units Technical transformation project	17.01	20				Internal fund
Other sundry projects						Internal fund
<b>Total</b>						

# 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)

#### 13. Intangible assets

##### (1) Breakdown

Item	Land use right	Patented technology	Non-patented technology	Management software	Total
<b>Cost</b>					
Balance at the beginning of the period	98,007,099.07	1,281,666.67	48,696,372.12	10,416,565.01	158,401,702.87
Increase during the period	8,260,867.50			1,122,151.78	9,383,019.28
(1) Purchase	5,495.50			1,122,151.78	1,127,647.28
(2) Transfer from investment property	8,255,372.00				8,255,372.00
Decrease during the period	8,255,372.00				8,255,372.00
(1) Disposal	8,255,372.00				8,255,372.00
Balance at the end of the period	<u>98,012,594.57</u>	<u>1,281,666.67</u>	<u>48,696,372.12</u>	<u>11,538,716.79</u>	<u>159,529,350.15</u>
<b>Accumulated amortization</b>					
Balance at the beginning of the period	21,453,642.24	1,281,666.67	48,584,441.30	5,800,124.49	77,119,874.70
Increase during the period	5,265,017.66			530,681.52	5,795,699.18
(1) Provision	1,003,287.02			530,681.52	1,533,968.54
(2) Transfer from investment property	4,261,730.64				4,261,730.64
Decrease during the period	4,261,730.64				4,261,730.64
(1) Disposal	4,261,730.64				4,261,730.64
Balance at the end of the period	<u>22,456,929.26</u>	<u>1,281,666.67</u>	<u>48,584,441.30</u>	<u>6,330,806.01</u>	<u>78,653,843.24</u>
<b>Book value</b>					
Book value at the end of the period	<u>75,555,665.31</u>	<u>111,930.82</u>	<u>111,930.82</u>	<u>5,207,910.78</u>	<u>80,875,506.91</u>
Book value at the beginning of the period	<u>76,553,456.83</u>	<u>111,930.82</u>	<u>111,930.82</u>	<u>4,616,440.52</u>	<u>81,281,828.17</u>

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

Item	Balance at the end of the period	Balance at the beginning of the period
Outside Hong Kong	<b>75,555,665.31</b>	76,553,456.83
Including: interim lease	<b>75,555,665.31</b>	76,553,456.83
Sub-total	<b>75,555,665.31</b>	76,553,456.83

# 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. 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

#### 15. 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	44,134,956.57	7,266,888.70	45,292,319.57	7,396,913.38
Profits not realized from intra-group transactions	6,537,206.68	1,178,992.92	5,693,874.50	986,070.31
Accrued warranty expenses	23,757,224.05	4,540,086.59	23,236,743.98	4,423,014.59
Total	74,429,387.30	12,985,968.21	74,222,938.05	12,805,998.28

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 15. 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	9,436,444.36	2,359,111.08	9,752,452.66	2,438,113.16
Total	<u>9,436,444.36</u>	<u>2,359,111.08</u>	<u>9,752,452.66</u>	<u>2,438,113.16</u>

Deductible temporary differences include:

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 2021 was RMB9,752,452.66. During the period, taxable temporary differences of the reversal of fair value amortization was RMB316,008.30. As at 30 June 2021, the taxable temporary differences arising from such fair value adjustment amounted to RMB9,436,444.36.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 15. Deferred income tax assets and deferred income tax liabilities (continued)

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

Item	Offset amount of deferred income tax assets and liabilities at the end of the period	Remaining deferred income tax assets or liabilities after offset at the end of the period	Offset amount of deferred income tax assets and liabilities at the beginning of the period	Remaining deferred income tax assets or liabilities after offset at the beginning of the period
Deferred income tax assets		<b>12,985,968.21</b>		12,805,998.28
Deferred income tax liabilities		<b>2,359,111.08</b>		2,438,113.16

(4) Analysis of unrecognized deferred income tax assets

Item	Balance as at the end of the period	Balance as at the beginning of the period
Deductible temporary differences	<b>50,107,073.93</b>	44,020,514.81
Deductible losses	<b>278,268,769.13</b>	274,029,143.06
Total	<b>328,375,843.06</b>	318,049,657.87

(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
2022	<b>1,524,722.02</b>	1,524,722.02	
2023	<b>20,481,557.96</b>	26,000,234.14	
2024	<b>47,933,321.41</b>	47,933,321.41	
2025	<b>17,026,640.40</b>	17,026,640.40	
2026	<b>372,675.87</b>		
2027	<b>25,877,485.14</b>	25,877,485.14	
2028	<b>16,084,908.28</b>	16,084,908.28	
2029	<b>92,257,126.94</b>	94,084,087.14	
2030	<b>45,497,744.53</b>	45,497,744.53	
2031	<b>11,212,586.58</b>		
Total	<b>278,268,769.13</b>	274,029,143.06	

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 16. 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	24,568,830.03		24,568,830.03	9,286,687.33		9,286,687.33
Total	24,568,830.03		24,568,830.03	9,286,687.33		9,286,687.33

#### 17. Short-term borrowings

Type	Balance at the end of the period (Note)	Balance at the beginning of the period
Mortgage loans	2,002,788.77	5,008,155.07
Guaranteed loans (Note)	40,043,988.76	40,050,722.22
Credit loans	63,066,710.96	53,057,906.81
Total	105,113,488.49	98,116,784.10

(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.

#### 18. Notes payable

##### (1) Breakdown

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	98,840,857.43	86,570,132.09
Total	98,840,857.43	86,570,132.09

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

#### 19. Accounts payable

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Operating purchase payable	281,033,264.26	285,452,440.49
Long-term assets purchase payable	20,738,633.06	33,292,794.11
Total	301,771,897.32	318,745,234.60

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 19. Accounts payable (continued)

##### (2) Aging analysis

Age	Balance at the end of the period	Balance at the beginning of the period
Within 1 year	281,910,637.35	292,109,142.08
1-2 years	5,012,467.45	19,296,923.57
2-3 years	7,077,889.85	2,718,865.47
Over 3 years	7,770,902.67	4,620,303.48
Total	<b>301,771,897.32</b>	<b>318,745,234.60</b>

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.

#### 20. 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	7,976,976.32	14,978,858.81
Total	<b>7,976,976.32</b>	<b>14,978,858.81</b>

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

#### 21. Contract liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Receipts in advance from sale of commodities	30,794,517.35	9,954,761.23
Total	<b>30,794,517.35</b>	<b>9,954,761.23</b>

#### 22. 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	20,138,767.07	88,471,224.44	91,566,878.43	<b>17,043,113.08</b>
2. Post-employment benefits – established withdrawal and deposit plan		7,300,781.75	6,561,031.34	<b>739,750.41</b>
Total	<u>20,138,767.07</u>	<u>95,772,006.19</u>	<u>98,127,909.77</u>	<b><u>17,782,863.49</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 22. 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	19,541,929.67	75,343,039.22	80,222,876.34	<b>14,662,092.55</b>
2. Staff welfare (Note)		6,708,663.21	5,229,069.21	<b>1,479,594.00</b>
3. Social insurance	538,190.68	4,352,606.40	4,425,491.11	<b>465,305.97</b>
Including: Medical insurance	538,190.68	4,036,475.86	4,145,878.52	<b>428,788.02</b>
Work injury insurance		175,643.32	160,727.92	<b>14,915.40</b>
Maternity insurance		140,487.22	118,884.67	<b>21,602.55</b>
4. Housing funds	23,180.00	873,745.00	824,199.00	<b>72,726.00</b>
5. Labour union funds and employee education funds	35,466.72	1,193,170.61	865,242.77	<b>363,394.56</b>
Total	<u>20,138,767.07</u>	<u>88,471,224.44</u>	<u>91,566,878.43</u>	<u><b>17,043,113.08</b></u>

(Note): Including non-monetary benefits of RMB439,213.26 which are all corresponding provision of depreciation made on buildings and other assets provided to employee to use free of charge amounting to RMB439,213.26.

##### (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		7,029,662.84	6,315,989.83	<b>713,673.01</b>
2. Unemployment insurance		271,118.91	245,041.51	<b>26,077.40</b>
Total		<u>7,300,781.75</u>	<u>6,561,031.34</u>	<u><b>739,750.41</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 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 23. Taxes payable

Item	Balance at the end of the period	Balance at the beginning of the period
Value added tax	257,886.57	3,422,233.16
Individual income tax	187,760.50	1,248,834.48
Urban maintenance and construction tax	46,956.04	397,771.01
Real estate tax	2,114,853.91	1,696,307.14
Land use tax	415,654.39	1,196,530.44
Others	88,204.10	375,511.69
Total	<b>3,111,315.51</b>	<b>8,337,187.92</b>

#### 24. Other payables

##### (1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Other payables	8,294,883.43	2,740,953.52
Total	<b>8,294,883.43</b>	<b>2,740,953.52</b>

##### (2) Other payables

###### 1) Breakdown

Item	Balance at the end of the period	Balance at the beginning of the period
Security deposits	6,467,455.00	2,470,586.70
Others	1,827,428.43	270,366.82
Total	<b>8,294,883.43</b>	<b>2,740,953.52</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 25. Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Accrued expenses	32,349,057.13	29,759,622.08
Accruals to be transferred to output VAT	1,297,860.57	441,352.98
Total	<b>33,646,917.70</b>	<b>30,200,975.06</b>

#### 26. 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	<b>8,800,000.00</b>	<b>8,800,000.00</b>

(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	<b>8,800,000.00</b>	<b>8,800,000.00</b>
Including: Long-term loans due within 1 year		
Long-term loans due over 1 year	<b>8,800,000.00</b>	<b>8,800,000.00</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 27. 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	45,985,366.36	600,000.00	6,265,687.15	40,319,679.21	
Total	45,985,366.36	600,000.00	6,265,687.15	40,319,679.21	

(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.

#### 28. 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

#### 29. 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 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 30. 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>

#### 31. 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>235,322,609.36</b>	194,476,637.39
Retained earnings at the beginning of the year after adjustment	<b>235,322,609.36</b>	194,476,637.39
Add: Net profit attributable to equity holders of the parent	<b>34,445,168.90</b>	17,075,548.93
Retained earnings at the end of the period	<b>269,767,778.26</b>	211,552,186.32

### (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>551,042,767.49</b>	<b>424,420,736.47</b>	477,350,656.53	377,743,478.79
Other business	<b>21,964,299.81</b>	<b>7,707,889.99</b>	9,902,816.80	2,732,927.01
Total	<b>573,007,067.30</b>	<b>432,128,626.46</b>	487,253,473.33	380,476,405.80

##### (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.

##### (3) The revenue of RMB882,582.38 recognized for the period was included in the book value of contract liabilities at the beginning of the period.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (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	410,251.08	857,157.13
Education surcharge	176,207.65	367,837.32
Real estate tax	1,641,988.20	2,289,130.61
Land use tax	946,336.48	1,366,665.75
Vehicles and vessels use tax	14,628.48	18,070.28
Stamp duty	356,366.65	282,549.19
Local education surcharge	117,390.94	245,146.86
Environmental tax	1,548.06	2,128.95
Total	<b>3,664,717.54</b>	<b>5,428,686.09</b>

#### 3. Sales expenses

Item	Balance for the current period	Balance for the corresponding period last year
Transportation cost	12,885,582.97	11,318,782.80
Warranty fee	11,859,661.20	11,548,481.37
Wages, welfare and bonuses	3,895,658.33	3,416,168.22
Travelling expenses	952,811.16	540,400.88
Entertainment charge	1,974,878.93	2,000,226.19
Depreciation of fixed assets	84,813.87	107,515.80
Others	5,230,643.06	3,409,952.89
Total	<b>36,884,049.52</b>	<b>32,341,528.15</b>

#### 4. General and administration expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	24,852,581.05	16,256,761.28
Office cost	4,259,395.07	2,801,199.51
Professional service fee	2,662,269.02	1,907,778.64
Depreciation of fixed assets	3,171,140.72	3,114,934.02
Amortization of intangible assets	1,155,575.18	2,358,989.86
Travelling expenses	1,247,249.27	914,235.60
Entertainment charge	2,236,533.93	784,696.38
Others	335,423.55	43,269.74
Total	<b>39,920,167.79</b>	<b>28,181,865.03</b>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (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	16,341,726.13	13,555,033.43
Direct investment	11,856,470.93	8,131,756.52
Energy costs	1,492,740.31	994,963.19
Depreciation of fixed assets	5,291,478.78	5,681,661.86
Amortization of intangible assets	264,118.08	395,932.27
Others	2,162,831.01	1,435,734.03
Total	37,409,365.24	30,195,081.30

#### 6. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	2,637,148.39	2,890,228.28
Interest income	-806,798.33	-708,020.72
Exchange gains and losses	204,904.12	-313,568.86
Others	120,483.83	416,117.69
Total	2,155,738.01	2,284,756.39

#### 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)	6,265,687.15	5,299,970.11
Government grants related to income (Note)	4,262,750.57	1,989,574.05
Tax handling fee refund	40,342.97	
Tax relief	131,699.12	
Total	10,700,479.81	7,289,544.16

(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 disposal of financial instruments	109,233.65	218,395.08
Total	109,233.65	218,395.08

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 9. Change of fair value gains

Item	Balance for the current period	Balance for the corresponding period last year
Financial assets at fair value through profit or loss	103,195.91	
Total	103,195.91	

#### 10. Credit impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debt losses	2,341,205.34	1,389,041.03
Total	2,341,205.34	1,389,041.03

#### 11. Assets impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Provision for inventory losses	-5,924,039.51	-5,357,716.11
Total	-5,924,039.51	-5,357,716.11

#### 12. 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	5,527,482.78	210,763.10
Total	5,527,482.78	210,763.10

#### 13. 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
Transfer from payments not incurred	115,068.42		115,068.42
Others	17,952.10	13,515.76	17,952.10
Total	133,020.52	13,515.76	133,020.52

#### 14. Non-operating expenses

Item	Balance for the current period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Local water conservancy construction funds	108,345.69	6,984.44	
Others	9,828.16	16,975.00	9,828.16
Total	118,173.85	23,959.44	9,828.16

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 15. Income tax expenses

##### (1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Current income tax	1,454,954.56	2,730.20
Deferred income tax	-258,972.01	-1,733,977.12
Total	<u>1,195,982.55</u>	<u>-1,731,246.92</u>

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

Item	Balance for the current period	Balance for the corresponding period last year
Total profit	<u>33,716,807.39</u>	<u>12,084,734.15</u>
Income tax expenses based on tax rate of the parent company	5,057,521.12	3,021,183.53
Effects of different applicable tax rates on subsidiaries	61,457.83	-1,931,573.28
Effects of adjusting income tax of prior periods		
Effects of non-taxable income	-411,620.04	-411,620.04
Effects of including and excluding R&D expenses	-4,616,436.94	-2,804,941.55
Effects of non-deductible costs, expenses and losses	615,718.99	621,204.99
The effect of utilization of deductible loss arising from deferred income tax assets not previously recognized	-733,718.78	-5,682,485.27
The effect of deductible temporary difference arising from unrecognized deferred income tax assets or deductible loss during the period	<u>1,223,060.37</u>	<u>5,456,984.70</u>
Income tax expenses	<u>1,195,982.55</u>	<u>-1,731,246.92</u>

(3) No provision for Hong Kong profits tax has been made for the period from January to June 2020 and January to June 2021 as the Company and its other subsidiaries had no profits generated in or arising from Hong Kong.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (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	24,949,993.57	13,435,243.57
Receipt of government grants	4,903,093.54	2,507,474.05
Receipt of security deposit	4,350,000.00	
House rent received	3,413,679.20	
Financial expenses – interest income	806,798.33	708,020.72
Others	1,336,950.43	2,023,463.54
Total	<b>39,760,515.07</b>	<b>18,674,201.88</b>

#### 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	14,699,968.19	11,577,645.14
Cash paid as general and administrative expenses	10,823,835.46	6,460,069.05
Cash paid as research and development expenses	3,792,223.60	3,167,423.38
Payment of deposits including banker's acceptances	15,384,477.29	40,323,281.39
Frozen funds for litigation	11,030,441.19	
Others	1,750,100.28	787,174.72
Total	<b>57,481,046.01</b>	<b>62,315,593.68</b>

# NOTES TO THE FINANCIAL STATEMENTS

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

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

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

##### (1) Supplemental information on the statement of cash flows

Supplemental information	Balance for the current period	Balance for the corresponding period last year
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	<b>32,520,824.84</b>	13,815,981.07
Add: Provision for impairment to assets	<b>3,582,834.17</b>	3,968,675.08
Depreciation of fixed assets, oil and gas assets and production	<b>39,851,893.19</b>	41,014,245.42
Amortization of intangible assets	<b>1,562,489.58</b>	2,600,194.82
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets (“-” as gains)	<b>-5,527,482.78</b>	-210,763.10
Losses on write-off of fixed assets (“-” as gains)		
Losses on changes of fair value (“-” as gains)	<b>-103,195.91</b>	
Financial expenses (“-” as gains)	<b>2,842,052.51</b>	2,576,659.42
Investment losses (“-” as gains)	<b>-109,233.65</b>	-218,395.08
Decrease in deferred income tax assets (“-” as increase)	<b>-179,969.93</b>	-1,558,850.00
Increase in deferred income tax liabilities (“-” as decrease)	<b>-79,002.08</b>	-175,127.12
Decrease in inventories (“-” as increase)	<b>-56,545,999.22</b>	86,954.51
Decrease in operational receivables (“-” as increase)	<b>25,311,276.33</b>	-32,726,478.70
Increase in operational payables (“-” as decrease)	<b>22,877,845.46</b>	17,429,655.27
Other		
Net cash flows from operating activities	<b>66,004,332.51</b>	46,602,751.59
2) Significant investment and financing activities not related to cash receipts and payments:		
Debt transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3) Net change in cash and cash equivalents:		
Cash at the end of the period	<b>116,396,381.91</b>	161,113,474.48
Less: Cash at the beginning of the period	<b>145,050,218.49</b>	117,113,481.79
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	<b>-28,653,836.58</b>	43,999,992.69

# NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 3. 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>116,396,381.91</b>	145,050,218.49
Including: Cash on hand	<b>148,554.69</b>	183,947.81
Bank deposit readily available	<b>116,247,827.22</b>	144,866,270.68
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>116,396,381.91</b>	145,050,218.49
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 2021 was RMB116,396,381.91 and closing balance of cash on hand and at bank in the balance sheet as at 30 June 2021 was RMB139,200,815.18. The difference of RMB22,804,433.27 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 2020 was RMB145,050,218.49 and closing balance of cash on hand and at bank in the balance sheet as at 31 December 2020 was RMB166,389,726.85. The difference of RMB21,339,508.36 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>330,974,463.61</b>	292,348,115.04
Including: Payment for goods	<b>320,047,402.28</b>	290,981,325.04
Payment for the purchase of long-term assets such as fixed assets	<b>10,927,061.33</b>	1,366,790.00

# NOTES TO THE FINANCIAL STATEMENTS

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

### (4) Others

#### 1. Assets with restrictions in ownership or use rights

Item	Carrying amount at the end of the period	Reason for restriction
Monetary funds	<b>11,770,345.96</b>	Security deposits for the notes pool
Monetary funds	<b>11,034,087.31</b>	Frozen funds for litigation
Financing receivables	<b>49,630,146.00</b>	Pledge of the notes pool
Fixed assets	<b>3,478,226.50</b>	Borrowing and notes credit collateral
Intangible assets	<b>2,972,802.71</b>	Borrowing and notes credit collateral
Total	<b>78,885,608.48</b>	

#### 2. Monetary items in foreign currencies

Item	Foreign currency balance at the end of the period	Exchange rate	Balance translated into RMB at the end of the period
Monetary funds	—	—	12,508,785.29
Including: US Dollar	<b>490,035.28</b>	6.4601	3,165,676.92
Euro	<b>1,215,569.25</b>	7.6862	9,343,108.37
Accounts receivable	—	—	3,135,990.55
Including: Euro	<b>408,002.73</b>	7.6862	3,135,990.55
Contract liabilities	—	—	19,396,588.34
Including: US Dollar	<b>189,876.41</b>	6.4601	1,226,620.60
Euro	<b>2,363,972.80</b>	7.6862	18,169,967.74

# NOTES TO THE FINANCIAL STATEMENTS

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

### (4) Others (continued)

#### 3. Government grants

##### (1) Breakdown

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

##### Total-value method

Item	Government grants at the beginning of the period	Addition of grants during the period	Amortization during the period	Deferred income at the end of the period	Statement item of amortization during the period
Special funds for adjustment and improvement project for traditional industry bases including the Northeast Area	3,079,166.83		1,594,999.98	1,484,166.85	Other gains
Subsidy funds for the precious casting and processing of automotive components project	4,021,195.67		51,480.18	3,969,715.49	Other gains
Special funds for establishment of a platform for public services provided in foreign trading	318,794.50		182,589.3	136,205.2	Other gains
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	541,600.00		324,960.00	216,640.00	Other gains
Heavy load hydraulic rack-and-pinion steering gear for high class market	64,177.60		38,506.68	25,670.92	Other gains
Subsidies for research and development equipment	65,266.69		16,316.67	48,950.02	Other gains
Technological improvement project for quality enhancement of rack-and-pinion steering gears	2,850,295.40		371,777.70	2,478,517.70	Other gains
Construction project for development service platform of automotive steering system parts and components	10,913,122.03		1,723,124.58	9,189,997.45	Other gains
The annual production of 100,000 electric power steering system project	846,666.67		70,555.56	776,111.11	Other gains
The annual production of 100,000 medium and heavy duty commercial vehicles intelligent steering industrialization development project	6,745,454.46		642,424.26	6,103,030.20	Other gains
Technical improvement project of production capacity increasing of 500,000 units/sets of steering gear	4,553,833.08	600,000.00	461,537.22	4,692,295.86	Other gains
Key technological research project for high-safety smart automobile steer-by-wire system	720,000.00		45,000.00	675,000.00	Other gains
Comprehensive rewards for technical innovation	442,770.37		34,955.56	407,814.81	Other gains
Subsidies for purchase of research and development equipment	122,500.00		7,350.00	115,150.00	Other gains
Subsidies for the construction of national innovation demonstration zone in Wuhu city	122,500.00		7,350.00	115,150.00	Other gains
Comprehensive rewards of the technical innovation and investment of industrial enterprises in Wuhu city	617,500.00		37050	580,450.00	Other gains
Internet-of-Things construction project for intelligent production of high-end recirculation ball steering system	158,433.36		11,316.66	147,116.70	Other gains
Technical transformation subsidies for industrial enterprises in 2020	7,740,426.92		455,319.24	7,285,107.68	Other gains
Digital workshop subsidy	1,100,643.15		130,541.10	970,102.05	Other gains
Subsidy funds for the public relations project of digital transformation of manufacturing industry in Hangzhou	643,330.73		37,115.28	606,215.45	Other gains
Intelligent production line project of middle and high-end rack-and-pinion steering gears	317,688.90		21,417.18	296,271.72	Other gains
Sub-total	<u>45,985,366.36</u>	<u>600,000.00</u>	<u>6,265,687.15</u>	<u>40,319,679.21</u>	

# NOTES TO THE FINANCIAL STATEMENTS

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

### (4) Others (continued)

#### 3. Government grants (continued)

##### (1) Breakdown (continued)

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

##### Total-value method (continued)

Item	Description
Special funds for adjustment and improvement project for traditional industry bases including the Northeast Area	"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)
Subsidy funds for the precious casting and processing of automotive components project	"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》)
Special funds for establishment of a platform for public services provided in foreign trading	"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)
Technical improvement project of production capacity increasing of 350,000 units/sets of steering gear	"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)
Heavy load hydraulic rack-and-pinion steering gear for high class market	"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.
Subsidies for research and development equipment	"Notice of Granting of Special Fund Program (Incentives and Subsidies) on Building Innovative Province of Anhui Province 2014" (《關於下達2014年安徽省創新型省份建設專項資金計劃(獎補類)的通知》) (Ke Ji (2014)No. 58) (科計[2014]58號) issued by Anhui Province Department of Science and Technology (安徽省科技廳) and "Publicity of Acceptance of Industry Transform Projects and Investment of Individual Equipment Subsidies Projects" (《關於承接產業轉移項目和單台設備投資補助項目的公示》) issued by Wuhu Municipal economy and information technology department (蕪湖市經信委技術科)
Technological improvement project for quality enhancement of rack-and-pinion steering gears	"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)
Construction project for development service platform of automotive steering system parts and components	"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)
The annual production of 100,000 electric power steering system project	Wuhu City confirmed subsidies for technology transformation project to strengthen industrial development base
The annual production of 100,000 medium and heavy duty commercial vehicles intelligent steering industrialization development project	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)

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

### (4) Others (continued)

#### 3. Government grants (continued)

##### (1) Breakdown (continued)

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

##### Total-value method (continued)

Item	Description
Technical improvement project of production capacity increasing of 500,000 units/sets of steering gear	"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) Notice on Payment of Various Policy Subsidies (Rewards) in the Qiantang New Area (Second Batch) (Qian Tang Jing Ke (2020) No.116) (《關於兌現錢塘新區各類政策資助(獎勵)的通知(第二批)》)(錢塘經科[2020]116號) issued by the Science and Technology Bureau of Economic Development of Hangzhou Qiantang New Area (杭州錢塘新區經發科技局) and Financial Bureau of Hangzhou Qiantang New Area (杭州錢塘新區財政金融局)
Key technological research project for high-safety smart automobile steer-by-wire system	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)
Comprehensive rewards for technical innovation	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).
Subsidies for purchase of research and development equipment	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)
Subsidies for the construction of national innovation demonstration zone in Wuhu city	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)
Comprehensive rewards of the technical innovation and investment of industrial enterprises in Wuhu city	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)
Internet-of-Things construction project for intelligent production of high-end recirculation ball steering system	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)
Technical transformation subsidies for industrial enterprises in 2020	Certain Opinions on Promoting High-quality Development of the Real Economy (Tentative) (Yi Zheng Fa (2018) No.54) (《關於推動實體經濟高質量發展的若干意見(試行)》)(義政發[2018]54號) issued by the People's Government of Yiwu City
Digital workshop subsidy	Notice on the Application for the Supporting Demonstration Projects regarding the "Digital Workshop" and "Internet-of-Things Factory" of Jinhua in 2019 (Jin Jing Xin Shu Jing (2019) No.111) (《關於組織申報2019年金華市「數字化車間」和「物聯網工廠」示範項目的通知》(金經信數經[2019]111號)) issued by Jinhua Economic and Information Technology Commission (金華市經濟和信息化局)
Subsidy funds for the public relations project of digital transformation of manufacturing industry in Hangzhou	Several Policies on Further Accelerating the Development of New Manufacturing (Qian Tang Guan Fa (2019) No.30) (《關於進一步加快新製造業發展的若干政策》(錢塘管發[2019]30號)) issued by Hangzhou Qiantang New Area Management Committee (杭州錢塘新區管理委員會)
Intelligent production line project of middle and high-end rack-and-pinion steering gears	Notice on Payment of Various Policy Subsidies (Rewards) in the Qiantang New Area (First Batch) (Qian Tang Jing Ke (2020) No.72) (《關於兌現錢塘新區各類政策資助(獎勵)的通知(第一批)》)(錢塘經科[2020]72號) issued by the Science and Technology Bureau of Economic Development of Hangzhou Qiantang New Area (杭州錢塘新區經發科技局) and Financial Bureau of Hangzhou Qiantang New Area (杭州錢塘新區財政金融局), 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)

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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

Item	Amount	Presented items	Description
Technology innovation project funds	2,149,000.00	Other gains	Notice of Granting of the Seventh Batch of Special Funds for Technology Development of Hangzhou City in 2020 (Hang Cai Jiao (2020) No.59) (《關於下達2020年第七批杭州市科技發展專項資金的通知》(杭財教[2020]59號)) issued by Hangzhou Municipal Bureau of Finance and Hangzhou Municipal Science and Technology Bureau (杭州市財政局、杭州市科技局)
Subsidies for research and development	977,020.00	Other gains	Notice on Launching Key Subsidy Plan for High and New Technology Enterprise Supported by the State in 2020 (Hang Ke Gao (2020) No.178) (《關於下達2020年國家重點扶持領域高新技術企業補助計劃的通知》(杭科高[2020]178)) issued by Hangzhou Science Technology Committee Bureau (杭州市科學技術局); Notice on the Rewards and Subsidies for Technology Innovation Project Supported by Anhui Province in 2020 (《關於下達2020年省支持科技創新有關政策獎補項目的通知》) issued by Science & Technology Department of Anhui Province (安徽省科學技術廳); Certain Opinions on Promoting High-quality Development of the Real Economy (Tentative) (Yi Zheng Fa (2018) No.54) (《關於推動實體經濟高質量發展的若干意見(試行)》(義政發[2018]54號)) issued by the People's Government of Yiwu City
Designation fee for high and new technology enterprises	600,000.00	Other gains	Certain Opinions on Promoting High-quality Development of the Real Economy (Tentative) (Yi Zheng Fa (2018) No.54) (《關於推動實體經濟高質量發展的若干意見(試行)》(義政發[2018]54號)) issued by the People's Government of Yiwu City
Rewards for the industrial breakthrough	300,000.00	Other gains	(Si Zheng Ban Fa (2020) No.27) Notice on Issuing the Reward Solutions for Industrial Breakthrough of Siping City by the Office of the People's Government of Siping City (四政辦發[2020]27號《四平市人民政府辦公室關於印發四平市工業攻堅獎勵方案的通知》)
Subsidies for on-the-job training	146,500.00	Other gains	Notice on Distribution of Subsidies for on-the-Job Training in Enterprises (Hang Ren She Fa (2020) No.94) (《關於開展企業以工代訓補貼工作的通知》(杭人社發[2020]94號)) issued by Hangzhou Municipal Human Resources and Social Security Bureau and Hangzhou Municipal Bureau of Finance (杭州人力資源和社會保障局、杭州市財政局)
Rewards and subsidies for talents	66,000.00	Other gains	Notice on Allotment of High-skilled Talents Selection and Awards in Development Zone in 2019 (Hang Jing Kai Ren [2019] No.1) (《關於撥付2019年度開發區高技能人才評選獎勵的通知》(杭經開人[2019]1號)) issued by Hangzhou Human Resources and Social Security Bureau and Finance Bureau of the Economic Development Zone (杭州經濟技術開發區人力資源和社會保障局、杭州經濟技術開發區財政局); 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》) issued by Wuhu Human Resources and Social Security Bureau (蕪湖市人社局)
Other government grants	24,230.57	Other gains	
Sub-total	<u>4,262,750.57</u>		

- (2) Government grants credited to the current profit or loss for the period amounted to RMB10,528,437.72.

# 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>2,637,148.39</b>	2,890,228.28
Including: Bank loans, interests of other loans fully repayable within 5 years	<b>2,637,148.39</b>	2,890,228.28
Interests of other loans not fully repayable within 5 years		
Less: Capitalized interests		
Financial expenses — interest expenses	<b>2,637,148.39</b>	2,890,228.28

During the period from January to June 2021 and from January to June 2020, there was no interest capitalization.

## 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	690,643.39		-3,855,089.73
Wuhu Sterling Steering System Co., Ltd.	42.11	-2,614,987.45		-11,511,018.74

# 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

##### (1) Assets and liabilities

Name of subsidiary	As at the end of the period		As at the end of the period			
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou New Shibao Electric Power Steering Co., Ltd.	161,649,984.11	72,205,577.59	233,855,561.70	271,664,038.36	742,420.65	272,406,459.01
Wuhu Sterling Steering System Co., Ltd.	28,153,568.06	43,804,020.76	71,957,588.82	94,890,446.02	4,402,737.02	99,293,183.04

Name of subsidiary	As at the beginning of the period		As at the beginning of the period			
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou New Shibao Electric Power Steering Co., Ltd.	184,013,139.36	68,734,377.83	252,747,517.19	297,242,723.16	962,125.23	298,204,848.39
Wuhu Sterling Steering System Co., Ltd.	31,147,397.78	44,749,289.85	75,896,687.63	92,367,068.40	4,655,316.89	97,022,385.29

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

Name of subsidiary	Balance for the current period		Balance for the current period		Cash flows from operating activities
	Operating revenue	Net profit	Total comprehensive income	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	121,825,192.77	6,906,433.89	6,906,433.89	6,906,433.89	17,054,220.02
Wuhu Sterling Steering System Co., Ltd.	13,830,794.63	-6,209,896.56	-6,209,896.56	-6,209,896.56	5,375,094.16

Name of subsidiary	Balance for the corresponding period last year		Balance for the corresponding period last year		Cash flows from operating activities
	Operating revenue	Net profit	Total comprehensive income	Total comprehensive income	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	98,439,978.37	-3,195,019.74	-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	-6,981,871.03	-4,295,675.51

## 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	729,549,585.28	690,274,832.28
Including: Cash on hand and at bank	139,200,815.18	166,389,726.85
Short-term bank wealth management products	80,000,000.00	
Financial assets held for trading (stock)	1,600,647.08	904,073.28
Notes receivable		239,784.00
Accounts receivable	351,833,601.70	325,598,747.08
Financing receivables	146,803,498.83	187,274,526.18
Other receivables	10,111,022.49	9,867,974.89
Financial liabilities	522,821,126.67	514,973,104.31
Including: Bank and other borrowings	113,913,488.49	106,916,784.10
Notes payable	98,840,857.43	86,570,132.09
Accounts payable	301,771,897.32	318,745,234.60
Other payables	8,294,883.43	2,740,953.52

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

### (1) Details of financial instruments *(continued)*

With an objective of achieving a balance between risk and revenue through risk management, the Company minimizes the negative impact of risk to its operating results in order to maximize the interest of its Shareholders and other equity investors. According to the objective set for risk management, the basic strategies of the Company's risk management includes an identification and analysis of the Company's exposures to risk, establishment of an appropriate tolerance thresholds and operation of risk management. In addition, the Company supervises various risks on a timely and reliable manner in order to manage and monitor the exposures to ensure they are confined in a controlled scope.

During the daily operation, the main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. Management reviews and agrees policies for managing each of these risks and they are summarized below.

### (2) Credit risk

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

#### 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.

# NOTES TO THE FINANCIAL STATEMENTS

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

### (2) Credit risk *(continued)*

#### 1. Credit risk management practices *(continued)*

##### (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.

#### 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 2021, the Company had certain concentration of credit risk as 43.44% (31 December 2020: 43.55%) 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	139,200,815.18	139,200,815.18	139,200,815.18		
Short-term bank wealth management products	80,000,000.00	80,000,000.00	80,000,000.00		
Financial assets held for trading (stock)	1,600,647.08	1,600,647.08	1,600,647.08		
Accounts receivable	351,833,601.70	351,833,601.70	351,833,601.70		
Financing receivables	146,803,498.83	146,803,498.83	146,803,498.83		
Other receivables	10,111,022.49	10,111,022.49	10,111,022.49		
<b>Total</b>	<b>729,549,585.28</b>	<b>729,549,585.28</b>	<b>729,549,585.28</b>		

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	166,389,726.85	166,389,726.85	166,389,726.85		
Financial assets held for trading (stock)	904,073.28	904,073.28	904,073.28		
Notes receivable	239,784.00	239,784.00	239,784.00		
Accounts receivable	325,598,747.08	325,598,747.08	325,598,747.08		
Financing receivables	187,274,526.18	187,274,526.18	187,274,526.18		
Other receivables	9,867,974.89	9,867,974.89	9,867,974.89		
<b>Total</b>	<b>690,274,832.28</b>	<b>690,274,832.28</b>	<b>690,274,832.28</b>		

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

### (3) Liquidity risk (continued)

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

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank and other borrowings	113,913,488.49	115,892,628.76	107,092,628.76	8,800,000.00	
Notes payable	98,840,857.43	98,840,857.43	98,840,857.43		
Accounts payable	301,771,897.32	301,771,897.32	301,771,897.32		
Other payables	8,294,883.43	8,294,883.43	8,294,883.43		
Total	522,821,126.67	524,800,266.94	516,000,266.94	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	106,916,784.10	108,745,506.64	99,945,506.64	8,800,000.00	
Notes payable	86,570,132.09	86,570,132.09	86,570,132.09		
Accounts payable	318,745,234.60	318,745,234.60	318,745,234.60		
Other payables	2,740,953.52	2,740,953.52	2,740,953.52		
Total	514,973,104.31	516,801,826.85	508,001,826.85	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 2021, the bank borrowings of the Company with floating interest rates were RMB63,000,000.00 (31 December 2020: 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 2021, the Company's gearing ratio was -0.18% (end of 2020: -2.95%). The calculation is described as follow:

Item	Balance at the end of the period	Balance at the beginning of the period
Total borrowings	113,913,488.49	106,916,784.10
Less: Cash and cash equivalents	116,396,381.91	145,050,218.49
Net debt	-2,482,893.42	-38,133,434.39
Equity	1,361,760,020.77	1,329,239,195.93
Total capital	1,359,277,127.35	1,291,105,761.54
Gearing ratio	-0.18%	-2.95%

## 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	1,600,647.08			1,600,647.08
(1) Financial assets at fair value through profit or loss	1,600,647.08			1,600,647.08
Equity instrument investment	1,600,647.08			1,600,647.08
Bank wealth management products			80,000,000.00	80,000,000.00
2. Financing receivables			146,803,498.83	146,803,498.83
Total assets measured at fair value on a recurring basis	1,600,647.08		226,803,498.83	228,404,145.91

# 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
Zhejiang Shibao Holding Group Co., Ltd.	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
Zhejiang Shibao Holding Group Co., Ltd.	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)	(Note)

(Note): Beijing Jizhi Wuxian Technology Limited was originally a subsidiary of Zhejiang Shibao Holding Group Co., Ltd., the controlling shareholder of the Company. Zhejiang Shibao Holding Group Co., Ltd. transferred all its equity interests to Beijing Ainfinit Technology Co., Ltd. (北京極致簡單科技有限公司) on 3 July 2020, and it ceases to be a related party of the Company after transfer of its equity interests.

# NOTES TO THE FINANCIAL STATEMENTS

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

### (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

#### 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		85,714.29

#### 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
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	40,000,000.00	2021.06.21	2022.06.20	No	Short-term borrowings
Zhejiang Shibao Holding Group Co., Ltd., Zhang Shi Quan, Zhang Shi Zhong, Zhang Lan Jun, Zhang Bao Yi, Tang Hao Han, Yiwu City He Feng Automobile Spare Parts Co., Ltd., Lei Wei Zhu and Wang Zheng Xiao	6,150,000.00	2021.01.29	2021.07.29	No	Bankers acceptance
Zhejiang Shibao Holding Group Co., Ltd.	33,410,000.00	2021.04.28	2021.10.28	No	Bankers acceptance
Zhejiang Shibao Holding Group Co., Ltd.	9,000,000.00	2021.06.01	2021.12.01	No	Bankers acceptance

# NOTES TO THE FINANCIAL STATEMENTS

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

### (2) Related parties transactions (continued)

#### 4. Related-party asset transfer and debt restructuring

Related Party	Transaction Contents	Balance for the current period	Balance for the corresponding period last year
Zhejiang Shibao Holding Group Co., Ltd.	Buildings and land use right	16,000,000.00	
Total		16,000,000.00	

#### 5. Remuneration of key management

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	2,326,847.21	1,779,148.29
Other key management	379,075.94	219,631.55
Total	2,705,923.15	1,998,779.84

### (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 Company Limited (Note)	6,730,000.00	6,137,221.43
	Hangzhou Shibao Auto Steering Gear Co., Ltd. (Note)	3,390,000.00	1,873,000.00
	Beijing Autonics Technology Co., Ltd. (Note)	500,000.00	3,920,000.00
	Hangzhou New Shibao Electric Power Steering Co., Ltd. (Note)	33,584,000.00	
	Jilin Shibao Machinery Manufacturing Co., Ltd. (Note)	381,494.10	
Total		44,585,494.10	11,930,221.43

(Note): Notes payable are banker's acceptances issued by the Company's subsidiaries Hangzhou Shibao Auto Steering Gear Co., Ltd., Hangzhou New Shibao Electric Power Steering Co., Ltd. and Wuhu Sterling Steering System Co., Ltd., the Company and the subsidiaries Hangzhou Shibao Auto Steering Gear Co., Ltd., Beijing Autonics Technology Co., Ltd., Hangzhou New Shibao Electric Power Steering Co., Ltd., and Jilin Shibao Machinery Manufacturing Co., Ltd. after received such banker's acceptances, have been endorsed to other parties.

# NOTES TO THE FINANCIAL STATEMENTS

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## 10. COMMITMENTS AND CONTINGENCIES

### (1) 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	<b>88,555,235.66</b>	78,320,631.95

### (2) Contingencies

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

## 11. EVENTS AFTER THE BALANCE SHEET DATE

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

## 12. OTHER IMPORTANT MATTERS

### (1) Debt Restructuring

#### The Company as creditor

Debt restructuring method	Carrying amount of creditor's rights	Gain or loss from debt restructuring	Increase in equity investment in associates or joint ventures caused by debt restructuring	Proportion of equity investment in total shares of associates or joint ventures
Debt transfer to capital (Note)	593,377.89	0.00	N/A	N/A

(Note): Hangzhou Shibao Auto Steering Gear Co., Ltd., a subsidiary of the Company, received 114,331.00 shares of Lifan Technology (Group) Co., Ltd. (stock abbreviation: ST Lifan), with the compensation price of RMB15.97 per Share, equivalent to the debt offset value of RMB1,825,866.07. Based on the stock price of RMB5.19 per Share as at the date of debt offset, the investment value of the equity instrument held at that date was RMB593,377.89. The difference of RMB1,232,488.18 between the debt offset value of RMB1,825,866.07 and the investment value of the equity instrument held at the account date of RMB593,377.89 was recognised as the consolidation of receivables during the current period.

# NOTES TO THE FINANCIAL STATEMENTS

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## 12. OTHER IMPORTANT MATTERS (continued)

### (2) 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 85.66% 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 2021 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)	70,241,083.59	12.26
FAW Jiefang Qingdao Automobile Co., Ltd. (一汽解放青島汽車有限公司)	60,888,472.48	10.63

(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 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 Corp., Ltd. (安徽江淮汽車集團股份有限公司)	49,880,953.41	10.24

### (3) 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	452,045,783.27	392,639,995.80	390,568,355.27	365,786,128.49
Total assets less current liabilities	1,413,238,811.06	1,101,410,502.26	1,386,462,675.45	1,095,357,684.43

# NOTES TO THE FINANCIAL STATEMENTS

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## 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				Book value
	Carrying amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision (%)	
Bad debt provision on individual basis	292,979.00	0.30	292,979.00	100.00	
Bad debt provision by groups	96,677,757.57	99.70	16,241.82	0.02	96,661,515.75
<b>Total</b>	<b>96,970,736.57</b>	<b>100.00</b>	<b>309,220.82</b>	<b>0.32</b>	<b>96,661,515.75</b>

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	0.34	292,979.00	100.00	
Bad debt provision by groups	84,910,974.48	99.66	425.89	0.01	84,910,548.59
<b>Total</b>	<b>85,203,953.48</b>	<b>100.00</b>	<b>293,404.89</b>	<b>0.34</b>	<b>84,910,548.59</b>

##### 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
<b>Total</b>	<b>292,979.00</b>	<b>292,979.00</b>	<b>100.00</b>	

##### 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	18,046,465.40	16,241.82	0.09
Group of related dealings within the scope of combination	78,631,292.17		
<b>Sub-total</b>	<b>96,677,757.57</b>	<b>16,241.82</b>	

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 1. Accounts receivable (continued)

##### (1) Breakdown (continued)

##### 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	18,046,465.40	16,241.82	0.09
Sub-total	18,046,465.40	16,241.82	0.09

##### (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	37,931,474.09	16,241.82	0.04	49,882,416.00	425.89	0.01
1-2 years	935,250.00			935,250.00		
2-3 years	9,905,072.34			8,970,077.36		
Over 3 years	48,198,940.14	292,979.00	0.61	25,416,210.12	292,979.00	1.15
Sub-total	96,970,736.57	309,220.82	0.32	85,203,953.48	293,404.89	0.34

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	425.89	15,815.93						16,241.82
Sub-total	293,404.89	15,815.93						309,220.82

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 1. Accounts receivable (continued)

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

Name	Carrying amount	Percentage of total accounts receivable (%)	Provision for bad debts
Wuhu Sterling (蕪湖世特瑞轉向系統有限公司)	59,681,533.48	61.55	
Hangzhou New Shibao (杭州新世寶電動轉向系統有限公司)	18,949,758.69	19.54	
Somic Automotive Components Co., Ltd. (索密克汽車配件有限公司)	17,118,991.07	17.65	15,407.09
Zhejiang Keli Vehicle Control System Co., Ltd. (浙江科力車輛控制系統有限公司)	647,762.13	0.67	582.99
Zhejiang Zhengchuang Technology Co., Ltd. (浙江正創科技有限公司)	279,712.20	0.29	251.74
Sub-total	<u>96,677,757.57</u>	<u>99.70</u>	<u>16,241.82</u>

#### 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	<b>376,645,874.03</b>	<b>100.00</b>			<b>376,645,874.03</b>
Including: Other receivables	<b>376,645,874.03</b>	<b>100.00</b>			<b>376,645,874.03</b>
Total	<b><u>376,645,874.03</u></b>	<b><u>100.00</u></b>			<b><u>376,645,874.03</u></b>

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	371,682,387.06	100.00			371,682,387.06
Including: Other receivables	371,682,387.06	100.00			371,682,387.06
Total	<u>371,682,387.06</u>	<u>100.00</u>			<u>371,682,387.06</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 2. Other receivables (continued)

##### (1) Breakdown (continued)

##### 2) Other receivables with provision for bad debt by groups

Group	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Security deposits	350.00		
Related party dealings within the scope of combination	375,655,517.20		
Imprest and etc.	990,006.83		
Sub-total	<b>376,645,874.03</b>		

##### (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	38,164,876.41			55,238,971.39		
1-2 years	12,749,470.38			10,811,389.50		
2-3 years	21,389,996.83			32,869,666.62		
Over 3 years	304,341,530.41			272,762,359.55		
Sub-total	<b>376,645,874.03</b>			371,682,387.06		

(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	375,655,517.2	370,639,314.62
Security deposits	350.00	350.00
Imprest	246,039.28	266,629.25
Others	743,967.55	776,093.19
Total	<b>376,645,874.03</b>	371,682,387.06

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 2. Other receivables (continued)

(5) The five largest other receivables

Name	Nature of receivables	Carrying amount	Age	Percentage to the balance of other receivables (%)	Provision for bad debts
Jilin Shibao Machinery Manufacturing Co., Ltd.	Current accounts	140,656,245.63	Within 1 year, 1-2 years, 2-3 years, Over 3 years	37.34	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	Current accounts	120,551,434.78	Within 1 year, 1-2 years, 2-3 years, Over 3 years	32.01	
Beijing Autonics Technology Co., Ltd.	Current accounts	114,447,836.79	Within 1 year, 1-2 years, 2-3 years, Over 3 years	30.39	
Panfar Construction Group Co., Ltd. (八方建設集團有限公司)	Others	458,360.19	2-3 years	0.12	
Zhejiang Chuangku Technology Co., Ltd. (浙江創酷科技有限公司)	Others	127,716.33	Within 1 year	0.03	
Sub-total		<u>376,241,593.72</u>		<u>99.89</u>	

#### 3. Long-term equity investments

(1) Breakdown

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

# 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 (continued)

##### (2) Investment in subsidiaries

Investees	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Provision for impairment during the period	Provision for impairment at the end of the period
Hangzhou Shibao Auto Steering Gear Co., Ltd.	70,461,807.49			70,461,807.49		
Hangzhou New Shibao Electric Power Steering Co., Ltd.	42,000,000.00			42,000,000.00		
Jilin Shibao Machinery Manufacturing Co., Ltd.	43,250,000.00			43,250,000.00		
Beijing Autonics Technology Co., Ltd.	10,000,000.00			10,000,000.00		
Wuhu Sterling Steering System Co., Ltd.	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

30 June 2021 | (RMB Yuan) | (English translation for reference only)

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

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

#### 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	62,984,845.83	55,758,004.26	25,009,766.91	23,491,525.11
Other business	10,853,570.46	4,700,750.16	2,614,420.82	911,290.69
Total	<b>73,838,416.29</b>	<b>60,458,754.42</b>	27,624,187.73	24,402,815.80

#### 2. Research and development expenses

Item	Balance for the current period	Balance for the corresponding period last year
Staff costs	776,165.80	440,505.71
Direct investment	3,653,943.56	1,104,581.97
Energy costs	526,295.10	290,557.04
Depreciation of fixed assets	538,648.76	960,327.4
Others	616.51	4,900.00
Total	<b>5,495,669.73</b>	2,800,872.12

#### 3. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Interest income from loans	2,407,889.16	2,407,889.16
Investment gains from disposal of tradable financial assets		150,995.09
Total	<b>2,407,889.16</b>	2,558,884.25

# NOTES TO THE FINANCIAL STATEMENTS

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## 14. OTHER SUPPLEMENTAL INFORMATION

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

Item	Amount
Gain or loss on disposal of non-current assets, inclusive of provision for assets impairment write-off	5,527,482.78
Unauthorised approvals or items without duly approved documents, or occasional tax rebate or tax credits	172,042.09
Government grants (except for government grants which are closely related to the Company's ordinary business and conforms with the national policies as well as standard amount and quantities or continuous government grants) recognized in gains or losses during the current period	10,528,437.72
Gain or loss on entrusted investment or asset management	109,233.65
Reversal of impairment provisions for receivables and contract assets subject to individual impairment test	1,518,895.62
Other non-operating income and expenses apart from those stated above	123,192.36
Less: Effect on enterprise income tax	370,416.31
Effect on interest of minority shareholders	605,539.68
Total	<u>17,003,328.23</u>

### (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	2.53	0.0436	0.0436
Net profits after deducting non-recurring profit or loss attributable to the ordinary shareholders of the Company	<u>1.28</u>	<u>0.0221</u>	<u>0.0221</u>

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

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

# DISCUSSION AND ANALYSIS OF OPERATIONS

## REVIEW OF CHINA AUTOMOBILE INDUSTRY

From January to June 2021, production and sales volume of China automobile industry were 12,569,000 units and 12,891,000 units respectively, representing an increase of 24.20% and 25.60% respectively as compared with last year. Production and sales of passenger cars were 9,840,000 units and 10,007,000 units respectively, representing an increase of 26.80% and 27.00% respectively as compared with last year. Among passenger cars, sales volume of China-brand passenger cars were 4,198,000 units representing an increase of 46.80% as compared with last year. Production and sales volume of new energy cars were 1,215,000 units and 1,206,000 units respectively, representing an increase of 200.00% respectively as compared with last year. Production and sales of commercial vehicles were 2,730,000 units and 2,884,000 units respectively, representing an increase of 15.70% and 20.90% respectively as compared with last year. The top ten automaker groups in China sold 11,143,000 units of automobiles in total, representing an increase of 23.50% as compared with last year, and their sales represented 86.40% of the total sales of the automobile, representing a decrease of 1.5 percentage points as compared with last year.

## ANALYSIS OF MAIN BUSINESS

### 1. Changes in major financial information

During the Reporting Period, the automobile industry is growing relatively faster, which caused the growth of the Company's revenue and further improved the Company's profit. The Company recorded a revenue of RMB573,007,067.30, representing an increase of 17.60% as compared with last year.

During the Reporting Period, the gross profit of the Company's main business amounted to RMB126,622,031.72, representing an increase of RMB27,014,853.28 as compared with last year. The gross profit margin of the Company's main business was 22.98% (corresponding period of last year: 20.87%). The increase in the Company's gross profit margin is mainly due to the increase in sales volume, resulting in cost optimization.

During the Reporting Period, the Company's selling expenses amounted to RMB36,884,049.52, representing an increase of 14.05% as compared with last year. The main reason was the combined effect of the increase in transportation cost associated with the increased sales and the increase in agency fee and insurance from export businesses.

During the Reporting Period, the Company's general and administrative expenses amounted to RMB39,920,167.79, representing an increase of 41.65% as compared with last year. The integrated reasons were (i) the withdrawal of the government preferential policy of reducing the social security expenditure of enterprises since January 2021 due to the outbreak of the coronavirus pandemic during the corresponding period of last year, which increased the social security expenditure of the Company, leading to the increase in the Company's employee remuneration expenses; and (ii) the subsequent expenditure incurred from sundry decoration and security facilities as the construction of the new factory located in Yiwu was completed, leading to an increase in office cost.

During the Reporting Period, the Company's research and development expenses amounted to RMB37,409,365.24, representing an increase of 23.89% as compared with last year. The research and development expenses accounted for 6.53% of the revenue (corresponding period of last year: 6.20%). 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 RMB2,155,738.01, representing a decrease of 5.65% as compared with last year, which was mainly due to the decrease in interest expenses.

During the Reporting Period, the other gains was RMB10,700,479.81, comprising the government grants of RMB10,528,437.72. The investment gains amounted to RMB109,233.65, representing a decrease of 49.98% as compared with the corresponding period of last year, mainly due to the decrease in redemption amount of short-term bank wealth management products at maturity, resulting in a decrease in gains. Credit impairment losses amounted to RMB2,341,205.34, representing an increase of 68.55% as compared with the corresponding period of last year, which was mainly due to a combination of the lack of provision for large amounts of bad debts receivable during the current period and recovery of bad debts receivable in previous years.

# DISCUSSION AND ANALYSIS OF OPERATIONS

During the Reporting Period, the Company's income tax expenses amounted to RMB1,195,982.55 (corresponding period of last year: RMB-1,731,246.92), which was mainly due to the increase in profit in the current period, causing the increase in the accrual of the income tax expenses in the current period.

In view of the above, the Company recorded a net profit attributable to shareholders of listed company of RMB34,445,168.90 during the Reporting Period, representing an increase of 101.72% as compared with last year.

During the Reporting Period, the net cash flows from operating activities was RMB66,004,332.51, representing an increase of 41.63% as compared with last year, which was mainly due to the increase in the cash received in relation to the recovery of deposits including banker's acceptances and receipt of security deposit; net cash flows from investing activities was RMB-98,812,820.97, representing a decrease of 680.36% as compared with last year, which was mainly due to the increase in cash payment for purchase of short-term bank wealth management products; net cash flows from financing activities was RMB4,359,556.00, representing an increase of 121.86% as compared with last year, mainly due to the increase in bank borrowings. In view of the above, during the Reporting Period, net increase in cash and cash equivalents was RMB-28,653,836.58, representing a decrease of 165.12% as compared with last year.

## 2. Composition of revenue

	January-June 2021		January-June 2020		Change
	Amount	Proportion to revenue	Amount	Proportion to revenue	
Total Revenue	<b>573,007,067.30</b>	<b>100%</b>	487,253,473.33	100%	17.60%
<b>By industry</b>					
Manufacture of automotive components and part	<b>551,042,767.49</b>	<b>96.17%</b>	477,350,656.53	97.97%	15.44%
Others	<b>21,964,299.81</b>	<b>3.83%</b>	9,902,816.80	2.03%	121.80%
<b>By products</b>					
Steering system and parts	<b>508,318,466.21</b>	<b>88.71%</b>	425,633,013.10	87.36%	19.43%
Parts and others	<b>42,724,301.28</b>	<b>7.46%</b>	51,717,643.43	10.61%	-17.39%
Others	<b>21,964,299.81</b>	<b>3.83%</b>	9,902,816.80	2.03%	121.80%
<b>By geography</b>					
Mainland China	<b>490,809,418.01</b>	<b>85.66%</b>	453,147,738.80	93.00%	8.31%
Outside Mainland China	<b>82,197,649.29</b>	<b>14.34%</b>	34,105,734.53	7.00%	141.01%

## 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	551,042,767.49	424,420,736.47	22.98%	15.44%	12.36%	2.11%
<b>By products</b>						
Steering system and parts	508,318,466.21	397,321,743.02	21.84%	19.43%	16.74%	1.80%
Parts and other	42,724,301.28	27,098,993.45	36.57%	-17.39%	-27.55%	8.89%
<b>By geography</b>						
Mainland China	490,809,418.01	381,717,081.89	22.23%	8.31%	5.57%	2.02%
Outside Mainland China	82,197,649.29	50,411,544.57	38.67%	141.01%	166.74%	-5.92%

# DISCUSSION AND ANALYSIS OF OPERATIONS

11/23

## 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 2021		31 December 2020		Change
	Amount	Proportion to total assets	Amount	Proportion to total assets	
Cash on hand and at bank	139,200,815.18	6.89%	166,389,726.85	8.42%	-1.53%
Accounts receivable	351,833,601.70	17.41%	325,598,747.08	16.48%	0.93%
Financing receivables	146,803,498.83	7.27%	187,274,526.18	9.48%	-2.21%
Inventories	304,993,280.44	15.09%	254,371,320.73	12.87%	2.22%
Investment assets	170,370,482.21	8.43%	175,565,178.66	8.88%	-0.45%
Fixed assets	627,154,741.23	31.04%	668,272,431.63	33.82%	-2.78%
Short-term borrowings	105,113,488.49	5.20%	98,116,784.10	4.96%	0.24%
Accounts payable	301,771,897.32	14.93%	318,745,234.60	16.13%	-1.20%

### 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 current period	Amount sold during the current period	Other Changes	Amount at the end of the period
Financial assets								
1. Tradable financial assets (excluding derivative financial assets)								
	904,073.28	103,195.91	103,195.91		593,377.89			1,600,647.08
2. Short-term bank wealth management products								
					140,000,000.00	60,000,000.00		80,000,000.00
3. Financing receivables								
	187,274,526.18				393,318,554.41	433,789,581.76		146,803,498.83
Sub-total of financial assets								
	188,178,599.46	103,195.91	103,195.91		533,911,932.30	493,789,581.76		228,404,145.91
Financial liabilities								
	0.00							0.00

### 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	11,770,345.96	Security deposits of the notes pool
Cash on hand and at bank	11,034,087.31	Frozen funds for litigation
Financing receivables	49,630,146.00	Pledge of the notes pool
Fixed assets	3,478,226.50	Borrowing and note credit mortgage
Intangible assets	2,972,802.71	Borrowing and note credit mortgage
Total	78,885,608.48	

# 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 RMB113,800,000.00 (31 December 2020: RMB106,800,000.00). Total loans and borrowings increased by RMB7,000,000.00 when compared with the beginning of the year, mainly due to the increase in guaranteed loans. RMB8,800,000.00 of the total loans and borrowings of the Company shall be repaid over 2 years but within 5 years. Loans and borrowings at fixed interest rates amounted to RMB42,000,000.00 (31 December 2020: RMB45,000,000.00).

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 -0.18% (31 December 2020: -2.95%).

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

According to the statistic provided by the China Association of Automobile Manufacturers in June 2021, the production and sales volume of the automobiles has experienced a significant decline since May. In particular, the production and sales volume of passenger cars were affected by the shortage of chips, and the production and sales volume of commercial vehicles was related to the changing emissions standards.

In the second half of 2021, China is expected to recover its economy in a steady way, which will be supportive for the automobile consumption. However, there still exists certain unsteadiness and uncertainties in the global economic recovery and the control and prevention of the pandemic. The automobile industry will be affected by the chip supply issue and the soared raw material prices. The Company expects that it will be confronted with increasing cost pressure in the second half of 2021 as the operating environment becomes very complicated and unpredictable.

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

## POTENTIAL RISKS OF THE COMPANY

The Board would like to invite the investors to pay special attention to the following risk factors.

### 1. Risks relating to industry fluctuations

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

### 2. Risks relating to product quality

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

### 3. Risk relating to technical innovation

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

### 4. Risk relating to downward prices

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

### 5. Risk relating to price fluctuation of raw materials

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

# DISCUSSION AND ANALYSIS OF OPERATIONS

## 6. Risk relating to higher proportion of accounts receivable

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

## 7. Risks relating to overseas market expansion

The Company's product sales are mainly concentrated in the domestic market. In recent years, the expansion of overseas markets has begun to deliver results which has achieved the volume export of automotive steering system and key components. As the Company deepens its understanding of overseas markets, the Company will steadily propel the expansion of overseas markets on top of strengthening the domestic market. In the event of material adverse changes in the international political situation as well as the politics, economic environment, automobile consumption policies and international trade policies of countries and regions where the Company's products are sold, there will be an impact on the expansion of the Company's overseas markets and potentially the Company's operation results and financial conditions.

## 8. Risk relating to the stock market

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

## ANALYSIS OF MAJOR CONTROLLED COMPANIES

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

Company name	Total assets	Net assets	Revenue	Operating profit	Net profit
Hangzhou Shibao	733,519,503.14	354,273,833.35	384,764,948.24	25,715,175.04	23,999,577.81
Hangzhou New Shibao	233,855,561.70	-38,550,897.31	121,825,192.77	6,901,211.89	6,906,433.89
Jilin Shibao	578,685,616.26	199,677,486.70	162,401,935.91	1,079,907.70	1,196,152.05
Beijing Autonics	100,600,676.71	-28,800,137.93	20,303,156.51	617,522.07	624,451.97
Wuhu Sterling	71,957,588.82	-27,335,594.22	13,830,794.63	-6,266,929.98	-6,209,896.56

# 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.

# DISCUSSION AND ANALYSIS OF OPERATIONS

## LITIGATION

During the Reporting Period, the Company has no material litigations or arbitrations.

Other litigations:

Basic information of the litigation (arbitration)	Amount involved (RMB'000)	Recognized as provision for liability	Stage of progress	The results and impact	The implementation of the judgment	Disclosure date	Disclosure index
Dispute over sale and purchase agreement brought by Jilin Shibao against Shanghai Blue-Print Precision Machinery Co., Ltd. (上海巴虜特精密機械有限公司)	975.00	No	On 5 January 2021, Jilin Shibao raised a litigation to the Tiedong District People's Court in Siping City, Jilin Province (吉林省四平市鐵東區人民法院), while the defendant filed a jurisdictional objection, which was dismissed by the court on 3 June 2021. The case is still in progress.	In progress	N/A	N/A	N/A
Dispute over sale and purchase agreement brought by Shanghai Blue-Print Precision Machinery Co., Ltd. against Jilin Shibao	1,717.00	No	On 31 May 2021, Shanghai Blue-Print Precision Machinery Co., Ltd. raised a litigation to the Intermediate People's Court in Siping City, Jilin Province (吉林省四平市中级人民法院). The case is still in progress.	In progress	N/A	N/A	N/A
Dispute over sale and purchase agreement brought by Chongqing Xingong Automotive Components Co., Ltd. (重慶新汽車零部件有限公司) against Wuhu Sterling	299.93	No	On 5 January 2021, Chongqing Xingong Automotive components Co., Ltd. raised a litigation to the People's Court of Wuhu Economic Development Zone in Anhui Province (安徽省蕪湖市經濟技術開發區人民法院). The court made a judgement in favour of the plaintiff, and requested that the defendant should pay to the plaintiff a loan of RMB959,300 and the interest overdue from 5 January 2021 to the effective settlement date at a rate of 3.85% based on the loan. On 24 July 2021, Wuhu Sterling lodged an appeal to the Intermediate People's Court of Wuhu City in Anhui Province (安徽省蕪湖市中級人民法院).	In progress	N/A	N/A	N/A

# DISCUSSION AND ANALYSIS OF OPERATIONS

## PLEDGE OF ASSETS

As at 30 June 2021, save for the assets with restricted ownership rights and rights in use as set out on page 73 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 1,651 employees as at 30 June 2021. 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 2021.

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 2021, apart from the commitments set out on page 88 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 2021 (30 June 2020: 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 contained in Appendix 14 to the Listing Rules with the exception of code provision A.1.8 and A.6.7.

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.

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings of shareholders to gain and develop a balanced understanding of the views of shareholders. Mr. Shum Shing Kei, an independent non-executive Director, who retired on 30 June 2021 was absent from the annual general meeting of the Company held on 30 June 2021 due to other important business.

## MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. According to Rule A.3(a) and B.8 of the Model Code, a director must not deal in any securities of the listed issuer during the period of 60 days immediately preceding the publication date of the annual results; and during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results and a director must not deal in any securities of the listed issuer without first notifying in writing the chairman or a director other than him and receiving a dated written acknowledgement.

The Company has made specific enquiry and was not aware of any non-compliance of the standard of dealings and the code of conduct regarding the Directors' dealings in the Company's securities during the Reporting Period, except that prior to Mr. Zhang Shi Zhong (non-executive Director) purchased 10,000 A Shares and disposed 2,500 A Shares of the Company on 8 February 2021 and 10 August 2021, respectively (the "Transactions"), Mr. Zhang Shi Zhong did not inform the Chairman of the Board in writing and received his confirmations, which were not in compliance with Rule B.8 of the Model Code. In addition, the Transactions were conducting during the relevant blackout periods of the annual results of the Company for the year ended 31 December 2020 and interim results of the Company for the six months ended 30 June 2021, respectively, which were not in compliance with Rule A.3(a) of the Model Code. Mr. Zhang has confirmed that he will act strictly in compliance with Rule A.3(a) and B.8 of the Model Code in the future.

The Company has internal control for compliance with the Model Code and reminds Directors regularly to comply with the Model Code (including reminders before the commencement of each blackout period that dealing during the blackout period is prohibited). After the above incidents, the Company has immediately reminded the Directors and senior management again of the requirements of the Model Code and the importance of compliance with the Model Code. The Company will continue to provide regular training to the Directors, senior management and staffs of the Company so as to ensure compliance with and enhance their (including their associates) awareness of good corporate governance practices.

## 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. Tsui Chun Shing (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, among others, approving the annual remuneration of an independent Director candidate.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## 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. Tsui Chun Shing (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, among others, approving the nomination of Directors for the seventh session of the Board of the Company.

## 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. Tsui Chun Shing (Chairman of the Audit Committee) and Mr. Lin Yi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). As at the date of this report, the Audit Committee held three meetings to review and approve, among others, the 2020 auditors' report, the 2020 internal audit report, the self-inspection table for the implementation of the internal control rules for the year 2020, the special verification report on the deposit and use of proceeds of the Company for the year 2020, the specific statements on the use of funds by the controlling shareholders and other associated contracting companies, the re-appointment of Pan China Certified Public Accountants as the auditors of the Company for the year 2021, the internal audit working plan for the year 2021 and the unaudited financial statements for first quarter and half year of 2021.

### Changes in the particulars of Directors during their term of office

Following changes have occurred in the Company during the Reporting Period by the following Directors:

#### Positions held in the Company

Name of director(s)	Details of the change
Shum Shing Kei	Resigned as an independent non-executive Director at the end of expiry of appointment period on 30 June 2021 and no longer serve as the Chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee.
Tsui Chun Shing	Elected as an independent non-executive Director at the 2020 AGM held on 30 June 2021 and appointed as the Chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee on 30 June 2021.

Save as disclosed above, no other changes in the particulars of Directors have to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

# 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 2021, 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%
Mr. Zhang Shi Zhong	Beneficial owner	10,000	0.002%	0.001%

### (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 2021, 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 2021, 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 2021, 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
“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
“Remuneration Committee”	remuneration committee of the Company

\* For identification purposes only

# GLOSSARY

“Reporting Period” or “the Period”	1 January 2021 to 30 June 2021
“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