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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zhejiang Shibao Company Limited, you should at once hand this circular, together with the relevant forms of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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ZHEJIANG SHIBAO COMPANY LIMITED*

浙江世寶股份有限公司

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

(Stock Code: 1057)

(1) RESOLUTIONS RELATING TO THE PROPOSED ISSUANCE OF A SHARES TO SPECIFIC TARGETS IN THE PRC; AND (2) RESOLUTION RELATING TO THE APPOINTMENT OF SUPERVISOR

A letter from the Board is set out on pages 4 to 9 of this circular.

A notice convening the EGM to be held at the conference room of the Company on the 3rd Floor of Office Building No. 6, 17th Avenue, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, China on 31 March 2023, Friday at 2:00 p.m. has been despatched by the Company on 27 February 2023. A notice convening the H Shareholders' Class Meeting to be held at the conference room of the Company on the 3rd Floor of Office Building No. 6, 17th Avenue, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, China on 31 March 2023, Friday at 3:00 p.m. (or immediately after the conclusion or adjournment of the A Shareholders' Class Meeting which will be held at the same place and date) has been despatched by the Company on 27 February 2023. The proxy forms for the EGM and the H Shareholders' Class Meeting have been despatched by the Company on 27 February 2023.

Whether or not you are able to attend the EGM or the H Shareholders' Class Meeting, you are requested to complete and return the appropriate form(s) of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM or the H Shareholders' Class Meeting (or any adjournment thereof (as the case may be)). Completion and return of the form(s) of proxy will not affect your rights to attend in person and vote at the EGM or the H Shareholders' Class Meeting (as the case may be), should you so wish.

* For identification purposes only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

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|---|--|
| “2022 First A Shareholders’ Class Meeting” | the 2022 first A Shareholders’ class meeting of the Company held on 2 December 2022 |
| “2022 First EGM” | the 2022 first extraordinary general meeting of the Company held on 2 December 2022 |
| “2022 First H Shareholders’ Class Meeting” | the 2022 first H Shareholders’ class meeting of the Company held on 2 December 2022 |
| “2023 First A Shareholders’ Class Meeting” or “A Shareholders’ Class Meeting” | the 2023 first class meeting of the A Shareholders to be held on 31 March 2023 |
| “2023 First Class Meetings” | the 2023 First A Shareholders’ Class Meeting and the 2023 First H Shareholders’ Class Meeting |
| “2023 First EGM” or “EGM” | the 2023 first extraordinary general meeting of the Company to be held on 31 March 2023 |
| “2023 First H Shareholders’ Class Meeting” or “H Shareholders’ Class Meeting” | the 2023 first class meeting for the H Shareholders to be held on 31 March 2023 |
| “A Share(s)” | PRC listed A Share(s) of the Company, with nominal value of RMB1.00 each, which are listed and traded on the Shenzhen Stock Exchange |
| “A Shareholder(s)” | holder(s) of A Share(s) |
| “Articles of Association” | the articles of association of the Company, as amended from time to time |
| “Board” | the board of Directors of the Company |
| “China” or “PRC” | the People’s Republic of China, which for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |

DEFINITIONS

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|---|--|
| “Company” | Zhejiang Shibao Company Limited* (浙江世寶股份有限公司), a joint stock company established in the PRC with limited liability, the H Shares and A Shares of which are listed on the Main Board of the Stock Exchange and on the Shenzhen Stock Exchange, respectively |
| “CSRC” | the China Securities Regulatory Commission (中國證券監督管理委員會) |
| “Demonstration Analysis Report” | the Demonstration Analysis Report in respect of the 2022 Proposed Issuance of A Shares to Specific Targets by the Company (《2022年向特定對象發行A股股票方案的論證分析報告》) |
| “Director(s)” | the director(s) of the Company |
| “Group”, “we” or “our” | the Company, its subsidiaries and its consolidated affiliated entities from time to time |
| “H Share(s)” | overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars |
| “H Shareholder(s)” | holder(s) of H Share(s) |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Latest Practicable Date” | 6 March 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Mr. Zhang” | Mr. Zhang Zhi Long (張治龍), nominee Supervisor to the Supervisory Committee |
| “Non-public Issuance of A Shares” or “Issuance of A Shares to Specific Targets” | the proposed issue of not more than 236,893,391 new A Shares by the Company in the PRC, which are proposed to be listed and traded on the Shenzhen Stock Exchange |

DEFINITIONS

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| “Registration Administrative Measures” | the Administrative Measures for the Registration of Securities Issuance by Listed Companies (Order No. 206) (《上市公司證券發行註冊管理辦法》第206號令) issued by the CSRC |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Share(s)” | the A Share(s) and/or the H Share(s) |
| “Shareholder(s)” | holder(s) of Share(s) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Supervisor(s)” | the supervisor(s) of the Company |
| “Supervisory Committee” | the supervisory committee of the Company |
| “%” | per cent |

LETTER FROM THE BOARD



ZHEJIANG SHIBAO COMPANY LIMITED*

浙江世寶股份有限公司

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

(Stock Code: 1057)

Executive Directors

Mr. Zhang Bao Yi

(Vice Chairman of the Board and General Manager)

Mr. Tang Hao Han

(Vice Chairman of the Board and Deputy General Manager)

Ms. Zhang Lan Jun

Ms. Liu Xiao Ping

Registered office:

No. 1 Shuanglin Road

Fotang Town

Yiwu City

Zhejiang Province

China

(Postal Code 322002)

Non-Executive Directors

Mr. Zhang Shi Quan (Chairman)

Mr. Zhang Shi Zhong

Principal Place of Business

in Hong Kong

Unit C, 5/F

Jonsim Place

228 Queen's Road East

Wanchai

Hong Kong

Independent Non-Executive Directors

Mr. Gong Jun Jie

Mr. Lin Yi

Mr. Tsui Chun Shing

13 March 2023

To the Shareholders

Dear Sir or Madam,

- (1) RESOLUTIONS RELATING TO THE PROPOSED ISSUANCE OF
A SHARES TO SPECIFIC TARGETS IN THE PRC;
AND
(2) RESOLUTION RELATING TO THE APPOINTMENT OF SUPERVISOR**

INTRODUCTION

References are made to the announcement of the Company dated 18 October 2022, the circular of the Company dated 10 November 2022, and the poll results of the 2022 First EGM and the 2022 First H Shareholders' Class Meeting dated 2 December 2022 in relation to, among others, the proposed Non-public Issuance of A Shares.

* For identification purposes only

LETTER FROM THE BOARD

Reference is also made to the announcement of the Company dated 27 February 2023 in relation to (1) resolutions relating to the proposed Issuance of A Shares to Specific Targets in the PRC; and (2) proposed appointment of Supervisor.

The purpose of this circular is to provide you with information regarding the following resolutions to enable you to make an informed decision on whether to vote for or against those resolutions at the 2023 First EGM and/or the 2023 First H Shareholders' Class Meeting.

RESOLUTIONS RELATING TO THE PROPOSED ISSUANCE OF A SHARES TO SPECIFIC TARGETS IN THE PRC

On 17 February 2023 and effective on the same day, the CSRC issued the “Administrative Measures for the Registration of Securities Issuance by Listed Companies (Order No. 206)” (《上市公司證券發行註冊管理辦法》第206號令). In view of the changes in terminology used by the relevant regulations, “issuance of A Shares to specific targets” is henceforth used in substitution for “non-public issuance of A Shares” where appropriate.

1. Resolution in relation to the Adjustment of the Validity Period of the 2022 Resolution in respect of the Issuance of A Shares to Specific Targets

At the 2022 First EGM, the 2022 First A Shareholders' Class Meeting and the 2022 First H Shareholders' Class Meeting, resolutions in relation to the proposed Non-public Issuance of A Shares, among other things, have been approved by the Shareholders. The validity period of the aforementioned resolutions was 12 months from the date of passing of the relevant resolutions. If the Company has obtained the approval document from the CSRC on the Non-public Issuance of A Shares within the aforesaid validity period, the aforesaid validity period will be automatically extended to the date of completion of the Non-public Issuance of A Shares.

In accordance with the applicable laws and regulations of the PRC and accounting for the actual situation of the proposed issuance of A Shares, on 24 February 2023, the Board resolved to convene the 2023 First EGM, the 2023 First A Shareholders' Class Meeting and the 2023 First H Shareholders' Class Meeting to obtain Shareholders' approval, among other things, for the adjustment of the validity period of the resolution in respect of the proposed Issuance of A Shares to Specific Targets, the validity period of which shall be adjusted to 12 months from the date of the passing of the relevant resolutions at the 2023 First EGM, the 2023 First A Shareholders' Class Meeting and the 2023 First H Shareholders' Class Meeting.

LETTER FROM THE BOARD

2. Resolution in relation to the Demonstration Analysis Report in respect of the proposed Issuance of A Shares to Specific Targets by the Company

Pursuant to the Registration Administrative Measures, the Board and the Shareholders' meetings are required to decide on the proposed Issuance of A Shares to Specific Targets based on the "Demonstration Analysis Report in respect of the 2022 Proposed Issuance of A Shares to Specific Targets by the Company" (《2022年向特定對象發行A股股票方案的論證分析報告》). Therefore, on 24 February 2023, the Board resolved to propose a resolution at the 2023 First EGM, the 2023 First A Shareholders' Class Meeting and the 2023 First H Shareholders' Class Meeting to consider and approve the Demonstration Analysis Report.

The Company has prepared the Demonstration Analysis Report to ensure compliance with the new regulatory requirements of the Registration Administrative Measures and related supplemental regulations. In addition to disclosures on the background, purpose of the issuance, targets of the issuance, the pricing principles, the dilution effect of the issuance on shareholders and mitigative measures thereof which were covered in the Proposal in respect of the Non-Public Issuance of A Shares reviewed and approved by the Board on 18 October 2022 and approved by the Shareholders at the 2022 First EGM, the 2022 First A Shareholders' Class Meeting and the 2022 First H Shareholders' Class Meeting on 2 December 2022, the Demonstration Analysis Report also covers certain disclosures, including (i) the necessity of engaging in fund raising by this form, (ii) the suitability of specific targets of issuance to prescribed regulatory standards, (iii) the reasonableness of principles, basis, methodology and procedures adopted for the issue pricing, (iv) the feasibility of the issuance, and (v) the fairness and reasonableness of the issuance.

For details of the Demonstration Analysis Report, please refer to the Appendix I to this circular.

3. Resolution in relation to the Authorisation to the Board and its Authorised Person(s) to deal with matters relating to the Issuance of A Shares to Specific Targets

At the 2022 First EGM, the 2022 First A Shareholders' Class Meeting and the 2022 First H Shareholders' Class Meeting, resolutions in relation to the grant of authorisation to the Board to deal with the matters relating to the proposed Non-public Issuance of A Shares, among other things, has been approved by the Shareholders.

In accordance with the applicable laws and regulations of the PRC and accounting for the actual situation of the proposed issuance of A Shares, on 24 February 2023, the Board resolved to propose a resolution at the 2023 First EGM, the 2023 First A Shareholders' Class Meeting and the 2023 First H Shareholders' Class Meeting to obtain Shareholders' approval for the grant of authorisation to the Board and its authorised person(s) to deal with matters relating to the proposed Issuance of A Shares to Specific Targets, the validity period of which shall be 12 months from the date of the passing of the relevant resolutions at the 2023 First EGM, the 2023 First A Shareholders' Class Meeting and the 2023 First H Shareholders' Class Meeting.

LETTER FROM THE BOARD

RESOLUTION RELATING TO THE APPOINTMENT OF SUPERVISOR

Reference is made to the announcement of the Company dated 31 January 2023 in relation to the pass away of a supervisor of the Company.

According to the relevant provisions of the Company Law of the PRC and the Articles of Association of the Company, on 24 February 2023, the Supervisory Committee resolved to propose a resolution at the 2023 First EGM to elect Mr. Zhang Zhi Long as an independent Supervisor of the Company for a term commencing upon approval at the 2023 First EGM to the expiration date of the seventh session of the Supervisory Committee.

Brief biography of Mr. Zhang Zhi Long is set out below:

Mr. Zhang Zhi Long (張治龍) (“Mr. Zhang”), aged 39, is a Chinese national with no permanent residence abroad and holds a master’s degree. Mr. Zhang graduated from Zhejiang University of Finance and Economics with a bachelor’s degree in information and computing science, and received a master’s degree in accounting from Fudan University. Mr. Zhang served as an investment manager of Zhejiang Haiyue Investment Management Co., Ltd. (浙江海越投資管理有限公司) for the period from July 2008 to August 2013 and served as the sales director of the capital market department of Caitong Securities Co., Ltd. (財通證券股份有限公司) from September 2013 to March 2019. Since April 2019, Mr. Zhang has been the general manager of Hangzhou Xiaoshan Jingfu Private Fund Management Co. Ltd. (杭州蕭山精富私募基金管理有限公司).

As at the Latest Practicable Date, Mr. Zhang does not have any interests in the Shares of the Company within the meaning of the Part XV of the Securities and Futures Ordinance. He has no relationship with any Directors, supervisors, senior management, substantial shareholders (holding more than 5% of the Company’s Shares) and controlling shareholders (within the meaning of the Listing Rules) of the Company. He has not held any directorship or has not been a supervisor in any other listed companies in the past three years. He has not been punished by CSRC and other relevant departments, and has not been disciplined by stock exchanges. He complies with the Company Law of the PRC and the Articles of Association of the Company and could be appointed as a Supervisor of the Company.

Mr. Zhang will enter into a service contract with the Company upon election. It is proposed that the annual remuneration of Mr. Zhang will be RMB24,000 (including basic salary, other benefits and pension contributions) and the exact amount will be determined by the remuneration committee of the Company and the Board with reference to his responsibility, experience, workload and time devoted to the Company.

Save as disclosed herein, the Board considers that there is no other information relating to the proposed appointment of Mr. Zhang as Supervisor of the Company that is required to be disclosed under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules and there are no other matters which need to be brought to the attention of the Shareholders.

LETTER FROM THE BOARD

EGM AND CLASS MEETINGS

The Company will convene the 2023 First EGM, the 2023 First A Shareholders' Class Meeting and the 2023 First H Shareholders' Class Meeting on 31 March 2023, Friday, at the conference room of the Company on the 3rd Floor of Office Building No. 6, 17th Avenue, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, PRC for the Shareholders to consider and, if thought fit, approve the resolutions relating to the Issuance of A Shares to Specific Targets as detailed above. The resolution in relation to the proposed appointment of a Supervisor will also be submitted to the Shareholders for consideration and approval at the 2023 First EGM. Notices convening the 2023 First EGM and the 2023 First H Shareholders' Class Meeting have been despatched by the Company on 27 February 2023. Forms of proxy for use at the 2023 First EGM and the 2023 First H Shareholders' Class Meeting have been despatched by the Company on the same day.

Whether or not you are able to attend the 2023 First EGM or the 2023 First H Shareholders' Class Meeting, you are requested to complete and return the appropriate form(s) of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the 2023 First EGM or the 2023 First H Shareholders' Class Meeting (or any adjournment thereof (as the case may be)). Completion and return of the form(s) of proxy will not affect your rights to attend in person and vote at the 2023 First EGM or the 2023 First H Shareholders' Class Meeting (as the case may be), should you so wish.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Issuance of A Shares to Specific Targets and the proposed appointment of a Supervisor and therefore no Shareholder is required to abstain from voting at the EGM and/or the 2023 First Class Meetings. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the EGM and/or the 2023 First Class Meetings shall be voted by poll in accordance with the Listing Rules and the Articles of Association. The poll results will be announced in accordance with Rule 13.39(5) of the Listing Rules after the conclusion of the EGM and the 2023 First Class Meetings.

CLOSURE OF REGISTER OF MEMBERS OF H SHARES

As notified in the notices convening the 2023 First EGM and the 2023 First H Shareholders' Class Meeting, the register of members of H Shares will be closed from Tuesday, 28 March 2023 to Friday, 31 March 2023 (both days inclusive), during which no transfer of H Shares will be registered, for the purpose of determining the Shareholders' eligibility to attend, speak and vote at the 2023 First EGM and the 2023 First H Shareholders' Class Meeting. To be eligible to attend, speak and vote at the 2023 First EGM and the 2023 First H Shareholders' Class Meeting, share transfer documents accompanied by relevant share certificates must be lodged with the Company's H Share registrar (for holders of H Shares), Computershare Hong

LETTER FROM THE BOARD

Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 27 March 2023. Shareholders whose names appear on the register of members of H Shares on 31 March 2023 are entitled to attend, speak and vote at the 2023 First EGM and the 2023 First H Shareholders' Class Meeting.

RECOMMENDATION

The Directors consider that the resolutions to be proposed at the EGM and the 2023 First Class Meetings are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the resolutions set forth in the notices.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular misleading.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendix I to this circular.

As the proposed Issuance of A Shares to Specific Targets is subject to certain conditions precedent, it may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
Zhejiang Shibao Company Limited*
Zhang Shi Quan
Chairman

**APPENDIX I DEMONSTRATION ANALYSIS REPORT IN RESPECT OF THE 2022 PROPOSED
ISSUANCE OF A SHARES TO SPECIFIC TARGETS BY THE COMPANY**

The following is the full text of the Demonstration Analysis Report in respect of the 2022 Proposed Issuance of A Shares to Specific Targets by the Company. This Demonstration Analysis Report is prepared in Chinese and translated into English. If there is any inconsistency between the English and Chinese versions, the Chinese version shall prevail.



ZHEJIANG SHIBAO COMPANY LIMITED*
浙江世寶股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1057)

**DEMONSTRATION ANALYSIS REPORT IN RESPECT OF
THE 2022 PROPOSED ISSUANCE OF A SHARES
TO SPECIFIC TARGETS BY THE COMPANY**

February 2023

I. GENERAL DEFINITIONS

| | |
|---|---|
| Issuer, Company, Zhejiang Shibao | Zhejiang Shibao Company Limited* (浙江世寶股份有限公司) |
| Shibao Holding, Controlling Shareholder | Zhejiang Shibao Holding Group Co., Ltd. |
| actual controllers | Mr. Zhang Shi Quan and his family members, including Zhang Shi Quan, Zhang Bao Yi, the son of Zhang Shi Quan, Tang Hao Han, the son-in-law of Zhang Shi Quan, Zhang Lan Jun, the daughter of Zhang Shi Quan, Zhang Shi Zhong, the brother of Zhang Shi Quan |
| State Council | the State Council of the People's Republic of China |
| CSRC | China Securities Regulatory Committee of the People's Republic of China |
| National Development and Reform Commission | the National Development and Reform Commission of the People's Republic of China |
| SZSE | the Shenzhen Stock Exchange |

**APPENDIX I DEMONSTRATION ANALYSIS REPORT IN RESPECT OF THE 2022 PROPOSED
ISSUANCE OF A SHARES TO SPECIFIC TARGETS BY THE COMPANY**

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| RMB, ten thousand | Renminbi yuan, RMB ten thousand |
| Company Law | the Company Law of the People’s Republic of China |
| Issuance | the Issuer’s action to the issuance of shares to specific targets |
| A Share(s) | RMB ordinary share(s) with a nominal value of RMB1.00 each issued in China |
| H Share(s) | ordinary share(s) with a nominal value of RMB1.00 each issued overseas and listed on Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars |

II. PROFESSIONAL DEFINITIONS

| | |
|--|---|
| passenger vehicle(s) | vehicles that are mainly used for the transport of passengers and their carry-on luggage and (or) temporary items in terms of their characteristics of design and technology, which can be subdivided into basic passenger vehicle (sedan), multipurpose passenger vehicle (MPV), sports utility vehicle (SUV), and cross passenger vehicle |
| commercial vehicle(s) | vehicles that are used for the transport of personnel and freight in terms of their characteristics of design and technology, which can be subdivided into heavy trucks, medium trucks, light trucks, mini trucks, large passenger vehicles, medium passenger vehicles, and light passenger vehicles |
| motorization, intelligence and network-connectedness | the development trend of the automobile industry, motorization means the field of new energy dynamical system; intelligence means automatic drive or driver assistance system; networking means the layout of internet of vehicle systems |
| assembly | an entirety to achieve a certain specific function after putting together a range of components or products with particular assembly process |

APPENDIX I DEMONSTRATION ANALYSIS REPORT IN RESPECT OF THE 2022 PROPOSED
ISSUANCE OF A SHARES TO SPECIFIC TARGETS BY THE COMPANY

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| automotive steering system | a series of devices used for changing or maintain the automobile driving or backward direction, which are mainly composed of steering wheel, steering column, steering gear, steering track rod, steering knuckle and other components, among which, steering gear is the most technological key part. The function of automotive steering system is to control the automobile driving direction based on the driver's intention |
| steering gear | namely steering engine or steering box which is used to increase the force transmitted from steering wheel to steering linkage and a key component of automotive steering system to change the transmission direction of the force |
| steering column | a component of steering system that links steering wheel to steering gear and transmits the steering wheel to steering gear |
| recirculation ball steering gear | the steering gears mainly suitable for commercial vehicles which are composed of various spare parts such as steering gear housing, screws, nuts and a number of iron pellets in the sealed pipeline between screws and nuts. After the screws fixed with tubular column turned from the steering wheel rotate, the screws push the nuts in the up-and-down motion, then the nuts propel the rocker arm reciprocating swing through gears for the purpose of steering. Recirculation ball, i.e., iron pellet, is put in the sealed pipeline between the nuts and screws for rolling back and forth. Recirculation ball steering gears are comprised of hydraulic power recirculation ball steering gears, electrical power manual recirculation ball steering gears and electro-hydraulic power recirculation ball steering gears |
| rack-and-pinion steering gear | the steering gears mainly suitable for passenger vehicles, whose structures are relatively compact with higher transmission efficiency, which is mainly comprised of steering gears integrated with steering shaft and racks usually integrated with steering tie rod. Rack-and-pinion steering gears include manual rack-and-pinion steering gears and hydraulic power rack-and-pinion steering gears |

| | |
|----------------------|--|
| EPS | Electronic Power Steering System that is mainly suitable for passenger vehicles with new energy, energy conservation and emission reduction, and generates power by an engine to assist the driver in power steering. EPS is generally composed of torque (steering) sensor, electronic control unit, electromotor, retarder, manual steering gear and battery supply |
| HPS | Hydraulic Power Steering System is to add a hydraulic path in mechanical steering system, provide auxiliary steering force for vehicle wheel when vehicle steering and assist the driver in steering operation. HPS is composed of oil pump, steering gear, steering actuation cylinder and steering control valve |
| LTE-V2X | V2X communication technology based on cellular mobile network, which is similar to 3G/4G connected by the mobile phone |
| 5G-V2X | V2X standard for 5G communication, which is also named as NR-V2X. The need for intelligent vehicles has been considered when 5G communication starts to be designed, while V2X is a part of 5G network. 5G-V2X may integrate LTE-V2X with DSRC so as to provide safer and more efficient performance capacity for the vehicles |
| L1 automatic driving | partial driving assistance. Driving automation system can continuously control the horizontal or vertical motion of vehicles which carry out a task of dynamic driving within its designed operation conditions, and has the partial targets in response to the horizontal and vertical motion of vehicles carried out and capabilities for detection of and response to events |
| L2 automatic driving | combined driving assistance. Driving automation system can continuously control the horizontal or vertical motion of vehicles which carry out a task of dynamic driving within its designed operation conditions, and has the partial targets in response to the horizontal and vertical motion of vehicles carried out and capabilities for detection of and response to events |

| | |
|----------------------|---|
| L3 automatic driving | conditional automatic driving. Driving automation system can continuously carry out all dynamic driving tasks within its designed operation conditions. The vehicles can achieve automatic acceleration or deceleration and steering in specific environment without the driver's operation. The drivers can choose not to monitor the surrounding environment of the vehicle, but need to be ready to take over the vehicle at any time, so as to deal with the road conditions that automatic driving fails to handle |
| L4 automatic driving | highly automatic driving. Driving automation system can continuously carry out all dynamic driving tasks and conduct dynamic driving tasks takeover within its designed operation conditions. The vehicles can achieve no driver's operation throughout the process of driving, but are subject to restricted conditions. For example, the limit of vehicle speed shall not exceed a certain extent and the driving region is relatively fixed |
| L5 automatic driving | full automatic driving. Driving automation system can continuously carry out all dynamic driving tasks and conduct dynamic driving tasks takeover within any drivable conditions. It is fully self-adaptive driving and suitable for any driving scenarios |
| redundant design | a place that plays a vital role in the completion of systematic or equipment tasks. More than a set of functional channel (system), working element or component with same function will be added to ensure that the system or equipment remains normal operation when such part is out of order, to reduce the fault probability of the system or equipment and enhance the system's reliability |
| drive-by-wire | Drive-by-wire or X-by-wire, namely the connection in the form of wire (electrical signal) instead of mechanical, hydraulic, pneumatic and other forms, which in turn needs not to rely on the power of the driver or input of torque |

**APPENDIX I DEMONSTRATION ANALYSIS REPORT IN RESPECT OF THE 2022 PROPOSED
ISSUANCE OF A SHARES TO SPECIFIC TARGETS BY THE COMPANY**

drive-by-wire chassis mainly composed of steer-by-wire, brake-by-wire, shift-by-wire, throttle-by-wire and suspension-by-wire systems, that is, achieving the functions of the aforesaid five major systems by way of drive-by-wire

Note: All data is rounded to two decimals unless otherwise stated. If there is any discrepancy between the total count and the sum of the sub-values, it is due to rounding.

Zhejiang Shibao Company Limited* (hereinafter referred to as the “Zhejiang Shibao”, “Listed Company” and “Company”) is a company listed on the Shenzhen Stock Exchange. In order to meet the needs of business development of the Company, expand the Company’s business scale, and further enhance its core competitiveness, it is proposed to issue shares to specific targets in accordance with relevant laws and regulations and regulatory documents, including the Company Law of the PRC and the Securities Law of the PRC after taking into consideration the actual circumstances of the Company.

The total proceeds from the Issuance to specific targets shall be no more than RMB1,180 million (inclusive) which, after deducting issuance expenses, will be used for the following projects:

Unit: RMB ten thousand

| No. | Project name | Total investment amount | Amount of proceeds to be invested |
|-----|--|--------------------------|-----------------------------------|
| 1 | The annual production of 600,000 automobile intelligent steering system technical transformation project (新增年產60萬台套汽車智能轉向系統技術改造項目) | 30,000.00 | 30,000.00 |
| 2 | The automotive intelligent steering system and key components development project (汽車智能轉向系統及關鍵部件建設項目) | 50,000.00 | 50,000.00 |
| 3 | The intelligent network connected automobile steer-by-wire technology research and development center project (智能網聯汽車轉向線控技術研發中心項目) | 18,000.00 | 18,000.00 |
| 4 | The replenishment of working capital (補充流動資金) | 20,000.00 | 20,000.00 |
| | Total | <u>118,000.00</u> | <u>118,000.00</u> |

In the event that the actual net proceeds of the Issuance are less than the total amount of the proceeds proposed to be invested into the projects set out above, the shortfall will be made up by the Company using its own funds or through other financing methods.

Before the proceeds are available, the Company may fund the projects in accordance with the actual progress of the projects by its self-raised funds first, which will be subsequently replaced by the proceeds when they are available. Without altering the current investment projects, the board of directors of the Company can make appropriate adjustments to the application sequence and amount of the proceeds according to the actual conditions of the above projects.

I. THE BACKGROUND AND PURPOSE OF THE ISSUANCE TO SPECIFIC TARGETS

(I) The Background of the Issuance to Specific Targets

1. Policy background

Automobile industry is one of the pillar industries in the development of China's national economy, which plays an important role in maintaining the sustainable, rapid and healthy development of the national economy. The auto parts and accessories manufacturing industry is an essential part of the automobile industry, as well as a key factor for the sustainable prosperity and development of the automobile industry. China is encouraging and supporting to cultivate a number of components manufacturers with international competitive advantages. The Opinions on Automobile Industry Development Plan under the "14th Five-Year Plan" stated that scientific and technological innovation can be applied on some important parts in the industrial chain to achieve technological and industrial breakthroughs, break through the blockages, connect the breakpoints and make up for shortcomings; superior resources can be concentrated to give priority to the development of some important parts in the industrial chain; enterprises can strengthen the in-depth cooperation and integrated development within the industry through offering more fault-tolerance opportunities to the components enterprises and assisting enterprises for rapid development in core areas of the industrial chain as well as promoting the synergistic stability of the whole industrial chain; certain auto parts enterprises will be ranking top 10 in the world by 2025. The policies aforesaid show the determination of the state to encourage the development of the auto parts industry, and also bring positive support to the development of China's auto parts industry.

2. Industry background

(1) Vast market space and promising development prospects

The Company is mainly engaged in the research and development, design, manufacturing and sales of automotive steering gear and other steering system key components. The principal products of the Company mainly include assemblies and spare parts of the recirculating ball steering gears, rack-and-pinion steering gears, electric power steering gears as well as other steering parts including steering column, which are mainly applied in various commercial vehicles, passenger vehicles and others. Automotive steering system and spare parts are called security parts for they are fundamental for the driving safety of automobiles and an indispensable part to a vehicle, the usable life of which is almost the same as the vehicle. The development of the automotive steering industry is in line with the development of the automobile industry.

China is the world's largest automobile manufacturer and distributor, whose production and sales volume of vehicles are ranked No.1 in the world for thirteen consecutive years, providing a vast space for the development of the automobile steering industry. As at the end of 2021, the total number of vehicles per thousand in China was only 214, representing a relatively low level as compared to other major countries, and there is also a vast space for growth. With the gradual and stable development of domestic economy, continuous and steady growth of GDP per capita, and continuous optimization of domestic infrastructures as well as the increasing in per capita road area, there is also great potential in the development of the domestic automobile market.

As pointed out in the 2021 China Auto Market Development Forecast Summit, China's automobile industry would experience a critical period for a round of transformation and upgrading during the "14th Five-Year Plan" period. China's automobile market exhibited a gradual growth trend in 2021, and the automobile market will also grow steadily in the coming five years. The sales volume of vehicles in China is expected to reach 30.00 million units in 2025, which portends that there will be a vast market space for the development of the domestic automobile steering industry in the future.

(2) *Rapid development of automobile motorization, intelligence and networking*

① Motorization

Energy and environment are two outstanding issues that restrict the sustainable development of the global economy and society. Currently, a series of social matters, such as energy shortage and environmental deterioration brought by the automobiles, have restrict the industry's future development. As the increasingly serious energy shortage as well as more and more importance that is attached to environmental protection, China has formulated a clear schedule for carbon peaking and carbon neutrality. In this context, the state and local governments offer great support by issuing a series of policies and measures to promote the development of new energy vehicles, such as Notice of the Action Plan for Carbon Dioxide Peaking Before 2030 (《2030年前碳達峰行動方案》) issued by the State Council in October 2021, which indicates vigorously promotion on new energy vehicles, while gradually reducing the proportion of cars that run on traditional oil-based fuels in new car sales and car ownership.

The development of China's new energy vehicles has entered a new era of rapid development, while the focus of the automobile industry is rapidly transferring from fuel vehicles to new energy vehicles. In 2022, China's new energy automobile witnessed a prosperity of automobile production and sales throughout the year, achieving the sales volume of more than 6,887,000, accounting for over 50% of the global total sales of new energy vehicles, ranking No.1 in the world for 8 consecutive years. In 2022, the sales of new energy vehicles accounted for 25% of the total sales of the vehicles, and achieve the target of 20% of new energy vehicle sales proportion in 2025 proposed in the Notice on the Development Plan for New Energy Automobile Industry (2021-2035)(《新能源汽車產業發展規劃(2021年-2035年)》) three years ahead of schedule. As a result of that, China will consolidate its position as the world's largest auto market and the world's largest new energy vehicle market.

In general, the unexpected development of China's new energy vehicle market is the beneficiary of the combined efforts of years of policy support, industry development, consumer cultivation and infrastructure construction, which will provide a vast market space for the domestic automobile and automobile part industry.

② Move towards intelligence and network-connectedness

Intelligent network-connected automobile is the organic combination of network-connectedness and intelligence, which achieves the information sharing and exchange between automobiles, people, road and cloud-based servers by carrying advanced sensors, controllers, actuators, and using new technologies including 5G and artificial intelligence, and gradually becomes a new generation vehicle with intelligent mobile space and application terminals. In the great changes of the automobile industry, the intelligent network-connected automobile with three characteristics of motorization, artificial intelligence and network-connectedness has become one of the key emerging industries supported by the state and the critical development focus of various automobile enterprises. With the continuous development of intelligent network-connected automobile, the overall mode of transportation will continue to change toward safety, efficiency and green. Road space, transportation costs, manpower demands will be released, and then produce greater social benefits.

Sustaining encouragement at policy level. The Intelligent Vehicle Innovation and Development Strategy (《智能汽車創新發展戰略》) jointly issued by 11 ministries including National Development and Reform Commission in February 2020 set new development goals. By 2025, China will basically form a system for standardised intelligent vehicles surrounding technological innovation, industrial ecology, infrastructure, regulatory standards, industrial supervision and network security, achieve the large-scale production of intelligent vehicles with automatic driving, and realise the market-oriented application of intelligent vehicles with highly automatic driving in specific environments; positive progress will be made in the construction of intelligent transportation systems and smart city-relevant facilities; automotive wireless communication networks (LTEV2X, etc.) will achieve regional coverage; the next-generation automotive wireless communication network (5G-V2X) will be applied gradually in some cities and highways, and the high-precision spatio-temporal reference service network will achieve full coverage.

The standard is improving. The development of China's intelligent connected vehicle standards was launched in 2017. A series of documents, including the National Guidelines for Developing the Standards System of the Internet of Vehicles Industry (《國家車聯網產業標準體系建設指南》), were successively issued, which enhanced the top-level design of standard system. The Taxonomy of Driving Automation for Motor Vehicles (《汽車駕駛自動化分級》)(GB/T 40429-2021), a nationally recommended standard that was officially published by the State Administration for Market Regulation in September 2021 and became effective on 1 March 2022, has played a normative role in the publicity and promotion of existing assisted driving technology, and promoted the development of the autonomous driving industry and the subsequent formulation of relevant regulations.

In recent years, with the development of autonomous driving road tests in many places, the technology has become increasingly mature, and the test demonstration has gradually moved towards commercialization, such as unmanned delivery vehicles, self-driving sanitation vehicles, self-driving buses and other scenarios.

(3) *Vehicle motorization, intelligence and network-connectedness are driving the rapid development of the automotive steering industry*

Without the engine of traditional vehicles to propel the vehicle after the acceleration of the motorization process of automobiles, electric power assisted systems will be considered for application in the steering system for weight reduction, space and cost saving considerations, and for the provision of steering power relying on the auxiliary torque provided by the motor, thus facilitating greater ease for driving at low speeds and more precise handling at high speeds. In addition, as it can save 3-5% of the fuel consumption for traditional fuel vehicles, the electric power steering system is therefore also an important tool for energy conservation and consumption reduction of traditional fuel vehicles. Compared with the hydraulic power steering system, it also has such functions as steering with speed, active re-centering, etc., and the penetration rate of electric power steering system in the field of fuel vehicles is also increasing.

The move towards automotive intelligence is inseparable from the move towards intelligence of auto parts. Intelligent steering system is an important actuator to realise L1~L5 automatic driving, and the intelligent steering system is based on the electric power steering system. Intelligent steering system manufacturers develop steering systems with different functions based on the needs of different levels of autonomous driving in automobile factories, and finally realise steer-by-wire in L3 and above autonomous vehicles. Steering-by-wire with redundant design will greatly improve the safety and reliability of vehicles in driving.

The Company is in a leading position in the domestic automotive steering industry. In order to meet the new opportunities and challenges brought by the development trend of automobile motorization and intelligence to auto parts corporations, the Company took the lead in carrying out relevant technical research. Through the long-term efforts of the research and development (R&D) team, the Company has accumulated certain technological reserves in automotive electric power steering systems and automotive intelligent steering, and is developing technologies and samples on intelligent driving in cooperation with several well-known domestic automobile manufacturers and large companies that carry out cross-industry research and development of driverless vehicle, and such cooperation is relatively smooth. These have laid a good foundation for the implementation of the current investment project in terms of technical strength, product development capability and follow-up promotion, mass production, and others.

(4) The localisation of the automotive industry is deepening

In recent years, the pace of all-round improvement in China's self-owned brands has been accelerating day by day, and good results have been achieved. In 2021, the cumulative sales of Chinese branded passenger cars were 9,543,000 units, accounting for 44.4% of the total sales of passenger cars, an increase of 6 percentage points over the previous year. The rapid growth of self-owned branded vehicles has brought great opportunities to domestic auto parts enterprises.

Some fast-moving players in China's parts manufacturing industry have accumulated a lot of process technology know-how and rich development experience during the long-term cooperation with large automobile manufacturers, and have further invested in research and development. The R&D technical strength, product quality and production process level of certain quality auto parts manufacturers have been significantly improved, and they have obvious competitive advantages in the segment by virtue of advantages in cost and localised services, and gradually replaced manufacturers of imported products. These corporations, on one hand, can enter the global automobile supplier supporting system and expand the market share of joint venture brands through the qualification certification of international vehicle manufacturers. On the other hand, along with the development of domestic self-owned branded manufacturers, they can increase the supply to domestic self-owned branded automakers and seize the domestic market. Additionally, they can actively integrate into the positive development system of their own brands with strong synchronous development capabilities in light of the development strategy of their own brands, promote the transformation and upgrading of domestic automobiles, and strengthen the stickiness of cooperation with vehicle manufacturers. Therefore, with the deepening of the localisation of the auto parts industry, there will be huge potential for growth in the scale of the auto parts manufacturing industry, in particular, high-quality enterprises and first-mover enterprises in the industry will grow rapidly in the market competition.

In addition, with the development of motorization, intelligence and network-connectedness in the automotive industry, the technology in the automotive industry chain is moving upstream, the degree of integration of systems and components is constantly improving, and the trend of modularisation and platformisation is prominent, which requires parts manufacturers to be stronger in R&D and technology integration capabilities. Parts manufacturers and automakers cooperate in joint development with relationship gradually moving from suppliers to win-win business ecological relationship, and the status of high-quality domestic parts enterprises in the industry value chain will be further enhanced.

3. Operational background

The Company is one of the early movers in the development of hydraulic power steering gears and electric power steering system in the PRC, and has been focusing on this market segment since its establishment. The Company has accumulated over 30 years of experience in OEM supply in automotive component industry with diverse customer resources worldwide, enabling the Company to become a Tier-1 OEM supplier among the automakers with good reputation. The Company is a member of the China Association of Automobile Manufacturers and was recognised as the “Leading Enterprise of China’s Automotive Component Steering Gears Industry” by the China Association of Automobile Industry in 2009. The Company is a major participant in the formulation of standards for the steering gears industry in China and has been conferred the title of the “Top 100 Outstanding Suppliers of Automotive Parts in China” for consecutive years.

The Company has leading technology research and development capabilities and deep technology accumulation, and now has five production sites in Zhejiang Hangzhou, Zhejiang Yiwu, Jilin Siping and Anhui Wuhu as well as one research center in Beijing. The Company has established provincial-level high-tech enterprise research and development center, provincial-level enterprise research institute and a post-doctoral workstation in Zhejiang Province. Through continuous research and development, the Company has gradually developed its own core technologies. As at 30 September 2022, the Company owned 256 authorised patents, including 44 invention patents.

Since its listing, the Company has leveraged the capital market platform to expand its business in an orderly manner and maintain a relatively stable development and business growth. For the three years ended 31 December 2021 and the nine months ended 30 September 2022, the Company’s operating revenues were approximately RMB982,370,400, RMB1,102,127,400, RMB1,177,915,800 and RMB926,736,000 respectively, showing a stable and increasing trend. The Company lives up to its role of enhancing safety and comfortability for driving. The Company is committed to providing world leading automakers with safe, intelligent, energy-saving, light-weight automotive steering system. The Company strives to raise the research and development and production capability of steering system and key components for each series of automobile model to international competitive standard. Meanwhile, the Company is tapping into key automotive components in relation to integration and modulation of steering system. Its strategic goal is to provide intelligent driving solutions and products to global leading automotive groups.

Currently, customers of downstream automakers are putting forward higher requirements on the capability of technical development, production and product quality assurance of automotive steering suppliers. Certain manufacturers of automotive steering system components with strong technical strength and strong financial strength will further reveal their competitive advantages, while some manufacturers with low technical level and weak capital strength will gradually withdraw from the market or be merged by other manufacturers. The industry will gradually concentrate on the leading backbone enterprises with independent innovation capabilities and international competitiveness. In terms of industrial upgrading, especially in the face of significant development opportunities, the industry's dominant players will face opportunities to scale up their development.

(II) Purpose of the Issuance to Specific Targets

1. To capture the development opportunities of the industry, expand the scale of competitive products and promote the increase in the Company's profits

Currently, the domestic automobile steering enterprises have entered into a important period of scale-based growth opportunities with positive development for the overall industry, transformation and upgrading of the product structures, entry into international supply chain system as well as improvement in localisation of components. The opportunities and challenges coexist. The Company is also facing relatively intensive competition pressure.

Given that the Company has accumulated certain technological reserves in terms of automotive intelligent steering, it is necessary for the Company to implement the "annual production of 600,000 automobile intelligent steering system technical transformation project" and "automotive intelligent steering system and key components development project" as soon as possible, so as to timely seize the market opportunities of motorization, intelligence and network-connectedness. After the investment projects have ramped up to full capacity, leveraging on its advanced equipment and technologies, the Company can build a capacity structure in a timely manner that adapts to the industry development trend, expand the Company's production scale of competitive products, consolidate and enhance its market share and positioning in the automotive steering industry and strengthen its anti-risk capability and sustainability, which enables the Company to develop its business in a sustained, rapid and healthy manner. Through the Issuance to Specific Targets, the Company will take full use of the advantage of the financing platform for listed company, seize the market development opportunities, and expand the scale of competitive products with a view to improving its overall profitability and maximizing its shareholders' interests.

2. *To enhance the Company’s development and research capabilities and build up the future automotive steering technologies*

The Company has always attached great importance to the businesses of automotive steering gears and other key components of steering systems, and has conducted in-depth theoretical research and accumulated extensive practical experience in this specialised field over the years. While actively developing new projects in parallel with customers, the Company emphasises highly on the simultaneous research and development of technology, process and fully automated production equipment, and is actively working on the research and development and industrialisation of the future steering technology.

The wire-controlled chassis is the “execution” cornerstone for the realization of automatic driving L3. Wire-controlled steering, as one of the key technologies of wire-controlled chassis, is at the stage of small-scale prototype. Therefore, under the general trend of automobile intelligence and electrification, the Company is keeping up with the development trend of wire-controlled chassis and constructing an automotive steering wire-control technology research and development center by upgrading and expanding the existing research and development center as well as increasing the investment in equipment research and development and professional supporting software. Based on the existing automobile electronic technology development capabilities, the Company will carry out vertical and horizontal technology research in the field of automotive intelligent driving, improve the technology research and development and innovation system, further improve the synchronous development and design capability with customers, so as to enhance the overall research and development level and technical strength of the Company and build up the future automotive steering technologies.

3. *To optimise the Company’s capital structure and reduce financial risks*

The automotive steering industry is capital and technology intensive. With the continuous expansion of the Company’s business scale and the further development of its existing business in the future, there is increasing demand for capital from the Company that would be exposed to greater capital pressure. To use the Issuance of Shares to Specific Targets to raise proceeds is a crucial approach for the Company to comprehensively improve its competitiveness and achieve sustainable development, which allows the Company to relieve the funding pressure, arrange its various production, operation and investment activities in an orderly manner, enhance its profitability and risk resistance, and also provides financial support for the Company to successfully achieve its strategic layout.

II. NECESSITY FOR THE ISSUANCE AND SELECTION OF THE TYPE OF SECURITIES

(I) Types of Securities to be Issued

The type of shares to be issued to the specific targets under the Issuance is domestic listed RMB ordinary shares (A Shares) with par value of RMB1.00 per share.

(II) The Necessity of Selecting the Types of Securities to be Issued

1. Satisfying the capital needs of the investment projects to be funded with the raised funds

The investment projects comply with the development strategies of the Company, which require greater amount of investment. In recent years, the Company has been optimizing and upgrading its product structure with a focus on its principal business of automotive steering systems and matching components. As expansion of its business scale, the capital expenditure and operating capital account for a majority of the total and the capital needs is increasing. In order to satisfy the increasing capital needs, the proceeds from this Issuance of the Company will be used to support the construction of the investment projects and supplement liquidity, which will provide strong support for the Company's development in future.

2. Financing by Issuing Shares to Specific Targets is a suitable financing way at this stage for the Company

The cost of finance through bank loans, issuing bonds and other channels is relatively higher and the credit facility is limited. If the investment projects are totally funded by proceeds from such debt financing as bank loans, the gearing ratio, operating risk and finance risk of the Company will be significantly enhanced on one hand, and there will be larger interest expenses on another, which will squeeze the overall profit of the Company and is detrimental to the healthy development of the Company.

The business development of the Company requires long-term capital support. Equity financing may effectively reduce the Company's pressure of debt repayment, which is conducive to ensure the smooth implementation of such investment projects and maintain a reasonable and stable capital structure of the Company.

In summary, it is necessary to raise funds by Issuing Shares to Specific Targets.

III. APPROPRIATENESS OF THE SELECTION SCOPE, NUMBER AND STANDARD FOR SPECIFIC TARGETS

(I) Appropriateness of the Selection Scope of Specific Targets

The specific targets of the Issuance shall be not more than 35 specific investors, including securities investment fund management companies, securities companies, trust companies, finance companies, insurance institutional investors, qualified foreign institutional investors that satisfy the requirements of relevant laws and regulations and the CSRC and other legal persons, natural persons or other investors that are subject to the relevant laws and regulations. Securities investment fund management companies, securities companies, qualified foreign institutional investors, and RMB-qualified foreign institutional investors that participate in the subscription with two or more of the products managed by them shall be taken as one single target subscriber. Trust company that subscribes as a target subscriber may only use its proprietary funds for subscription.

The specific targets will be determined upon the approval from the Shenzhen Stock Exchange and approval for registration by the CSRC, by the board of directors under the authorisation granted at the general meeting in consultation with the sponsor (lead underwriter) and based on the prices offered. In the event that the laws and regulations of the PRC have new requirements in relation to the specific targets of the Issuance of Shares, the Company will make adjustments according to such new requirements.

The selection scope of the specific targets complies with the relevant provisions of laws and regulations, including the Administrative Measures for the Registration of Securities Issuance by Listed Companies, and is appropriate.

(II) Appropriateness of the Number of Specific Targets

The specific targets of the Issuance shall be not more than 35 specific investors that are compliant with the provisions of relevant laws and regulations.

The number of specific targets complies with relevant provisions of laws and regulations, including the Administrative Measures for the Registration of Securities Issuance by Listed Companies, and is appropriate.

(III) Appropriateness of the Standard for Specific Targets

The specific targets of the Issuance should have certain risk awareness and risk tolerance and corresponding capital strength. The standard for specific targets of the Issuance complies with the provisions of relevant laws and regulations, including the Administrative Measures for the Registration of Securities Issuance by Listed Companies, and is appropriate.

IV. RATIONALITY OF THE PRINCIPLES, BASIS, METHODS AND PROCEDURES FOR THE PRICING OF THE ISSUANCE

(I) Principles and Basis for the Pricing of the Issuance

The price determination date will be the first day of the issuance period. The issue price for the Issuance shall not be lower than 80% of the average trading price of the Company's shares for the 20 trading days preceding the price determination date (the average trading price of shares for the 20 trading days preceding the price determination date = the total turnover of shares traded for the 20 trading days preceding the price determination date/the total volume of shares traded for the 20 trading days preceding the price determination date).

The minimum issue price of the Issuance will be adjusted accordingly if any ex-rights or ex-dividends events of the shares of the Company, such as the declaration of dividends, bonus issue, and capitalisation from capital reserves, occur during the period from the price determination date to the date of the Issuance.

The final issue price of the Issuance shall be determined, after the Company has obtained the reply from the CSRC on approval of the registration, by the board of directors of the Company under the authorization granted at the general meeting in consultation with the sponsor (lead underwriter) in accordance with the laws and regulations and the regulations of the CSRC and other competent authorities and based on the prices offered by the specific targets and the price priority principle.

(II) Methods and Procedures for the Pricing of the Issuance

The pricing methods and procedures for the Issuance will be disclosed by the Company in relevant announcements, after a board meeting and a general meeting, on the SZSE website, Stock Exchange website and in the media satisfying the conditions stipulated by the CSRC in accordance with relevant provisions of laws and regulations such as the Administrative Measures for the Registration of Securities Issuance by Listed Companies and shall be reviewed and approved by the Shenzhen Stock Exchange and subject to the decision made by the CSRC on approval of the registration.

The pricing methods and procedures for the Issuance are in compliance with the relevant laws and regulations such as the Administrative Measures for the Registration of Securities Issuance by Listed Companies, and are reasonable.

In summary, the principles, basis, methods and procedures for the pricing of the Issuance meet the requirements of relevant laws and regulations, and are compliant and reasonable.

V. FEASIBILITY OF THE ISSUANCE METHOD

(I) **The Issuance Method Is Legal and Compliant**

1. *The Issuance complies with the issue conditions stipulated under the Securities Law*

- (1) The Issuance complies with relevant provisions of Article 9 of the Securities Law, being non-public issuance of securities shall not be made by way of advertising, public inducement or disguised publicity campaigns.
- (2) The Issuance complies with relevant provisions of Article 12 of the Securities Law, being any listed company that makes a new share issuance shall satisfy the requirements specified by the securities regulatory authority under the State Council upon approval of the State Council, and the specific administrative measures shall be prescribed by the securities regulatory authority under the State Council.

2. *The Company does not fall under any of the circumstances where a listed company shall not issue securities to specific targets as specified in Article 11 of the Administrative Measures for the Registration of Securities Issuance by Listed Companies:*

The Company does not fall under any of the following circumstances where a listed company shall not issue shares to specific targets as specified in Article 11 of the Administrative Measures for the Registration of Securities Issuance by Listed Companies:

- (1) The use of funds previously raised being changed without permission and fail to rectify or obtain approval of shareholders at the general meeting;
- (2) The preparation and disclosure of financial statements for the most recent year do not comply with the Accounting Standards for Business Enterprises or relevant information disclosure rules in material respects; an audit report with adverse opinions or disclaimer of opinion is issued for the financial statements for the most recent year; and an audit report with qualified opinions is issued for the financial statements for the most recent year, and the material adverse impact of the matters involved in the qualified opinion on the listed company has not been eliminated, except when the Issuance involves a major asset restructuring;

- (3) The incumbent directors, supervisors and officers have been subject to administrative penalties imposed upon by the CSRC within the most recent three years or have been publicly condemned by the stock exchange within the most recent year;
- (4) The listed company or its incumbent directors, supervisors and officers are under official investigation by the judicial authority for any suspected crime or by the CSRC for any suspected violation of laws and regulations;
- (5) The controlling shareholder or actual controller commits a major illegal act that seriously harms the interests of the listed company or investors' legitimate rights and interests in the most recent three years;
- (6) There being a major illegal act that seriously harms investors' legitimate rights and interests or public interests in the most recent three years.

3. *The use of raised funds complies with relevant provisions of Article 12 of the Administrative Measures for the Registration of Securities Issuance by Listed Companies*

The use of raised funds falls under the following circumstances provided by Article 12 of the Administrative Measures for the Registration of Securities Issuance by Listed Companies:

- (1) The use of raised funds shall comply with the provisions of the national industrial policies and laws and administrative regulations on environmental protection and land management;
- (2) Except for financial enterprises, the raised funds shall not be used in financial investment or directly or indirectly invested in any company which is principally engaged in securities trading;
- (3) After the implementation of the projects for which the funds are raised, there will be no related transactions that constitute horizontal competition with and are evidently unfair to the controlling shareholder, actual controller and other enterprises under their control, or that seriously affect the independence of the Company's production and business operation.

4. *The Issuance complies with the requirements of Rule 1 under Applicable Opinions No.18 on the Securities and Futures Laws*

- (1) Larger amount refers to the amount of financial investment that a company has held and intends to hold exceeds 30% of the net assets attributable to the parent company in the consolidated statement of the company (excluding the amount of investment in similar financial businesses in the consolidated statement).

As of 30 September 2022, the amount of financial investment that the Company has held accounting for 0.38% of the net assets attributable to the parent company in the consolidated statement and the Company has no financial investment intended to be held.

In summary, the Issuance complies with the provisions of Article 5 of Rule 1 under Applicable Opinions No.18.

- (2) The amount of new and potential financial investments between the six months before the date of the board resolution in relation to the issuance to the date of the issuance should be deducted from the total raided funds. Investment refers to payment of investment amount, disclosure of investment intention or execution of investment agreements, etc.

The Company does not have any new or potential financial investments between the six months before the date of the Board resolution in relation to the Issuance to the date of the Issuance.

In summary, the Issuance complies with the provisions of Article 6 of Rule 1 under Applicable Opinions No.18.

- (3) The issuer should accurately disclose the basic circumstance where there is no financial investment with substantial amount as of the end of the latest period.

The Company has accurately disclosed the basic circumstance where there is no financial investment with substantial amount as of the end of the latest period in “VI. Financial Investment” under “Chapter I – Basic Information of the Issuer” of the prospectus in relation to the proposed Issuance.

In summary, the Issuance complies with the provisions of Article 7 of Rule 1 under Applicable Opinions No.18.

5. *The Issuance complies with the requirements of Rule 4 of Applicable Opinions No.18 on the Securities and Futures Laws*

- (1) If a listed company applies for a issuance of shares to specific targets, the number of shares to be issued shall in principle not exceed 30% of the total issued capital before the issuance.

The number of shares to be issued under the Issuance is calculated by total amount of raised funds by dividing the issue price finally determined, and does not exceed 30% of the Company's total share capital prior to the Issuance.

In summary, the Issuance complies with the provisions of Article 1 under Rule 4 of Applicable Opinions No.18.

- (2) If a listed company applies for additional issuance, rights issue, or directional issuance of shares, the resolution date of the board of directors for this issuance shall, in principle, be no less than 18 months from the date of the receipt of proceeds from the latest fund-raising. If proceeds from the latest fund-raising have been substantially invested or if the investment purpose of the fund-raising did not change and the proceeds has been invested as planned, the corresponding interval shall in principle not be less than six months. If the methods of the latest fund-raising include initial offerings, additional offerings, rights issues, and directional issuance of shares, such provisions may not apply to the issuance of convertible bonds, preference shares, shares to purchase assets supported by raised funds and applicable simplified procedures by a listed company.

As of 30 September 2022, the previously raised funds of the Company were used up. The interval between the date of the Board resolution in relation to the Issuance, being 18 October 2022, and the date on receipt of the previous raised funds, being 11 December 2014, is more than six months.

In summary, the Issuance complies with the provisions of Article 2 under Rule 4 of Applicable Opinions No.18.

- (3) A listed company should disclose the number of securities to be issued, financing interval, amount to be raised and investment projects and explain on whether the issuance is “a rational financing with reasonably determined scale of financing” based on aforesaid circumstances.

The Company has disclosed in the prospectus in relation to the proposed Issuance, the Demonstration Analysis Report regarding the proposed Issuance and other documents, the number of shares to be issued under the Issuance, financing interval, amount to be raised and investment projects. The number of shares to be issued will not exceed 30% of the total share capital prior to the Issuance, the financing interval is more than 6 months from the date on receipt of previous raised funds, and the Issuance is qualified as “a rational financing with reasonably determined scale of financing”.

In summary, the Issuance complies with the provisions of Article 4 under Rule 4 of Applicable Opinions No.18.

6. *The Issuance complies with the provision of Rule 5 of Applicable Opinions No.18 on Securities and Futures Laws*

- (1) Where proceeds are raised through bonus issue, issuing preferred shares or issuing shares to specific target subscribers determined by the board of directors, all proceeds raised can be used for liquidity replenishment and debt repayment. Where proceeds are raised through other channels, the percentage of proceeds for liquidity replenishment and debt repayment shall not exceed 30% of the total proceeds raised. For enterprises characterised by light assets and high return on R&D investment and with more than 30% of raised funds that are used for liquidity replenishment and debt repayment, they should give a comprehensive demonstration on the rationality thereof and the excess part should, in principle, be used for R&D investment associated with its principal business.

The proceeds from the Issuance are intended to be invested into “the annual production of 600,000 automobile intelligent steering system technical transformation project”, “the automotive intelligent steering system and key components development project”, “the intelligent network connected automobile steer-by-wire technology research and development center project” and replenishment of working capital. The amount of proceeds to be used to fund non-capital expenditures including liquidity will be RMB301,120,000, accounting for 25.52% of the total proceeds to be raised, which is less than 30% of the total proceeds to be raised.

In summary, the Issuance complies with the provision of Article 1 under Rule 5 of Applicable Opinions No.18.

- (2) Raised proceeds that are to be used to fund such non-capital expenditures as staff wages, goods payable, contingency costs, market and advertising expenses and initial working capital will be deemed as proceeds for replenishing working capital. R&D expenditure at the capitalisation stage is not deemed as working capital. Expenditure on construction projects with more than one year of construction period is deemed as capital expenditure.

The Company has clear division of capital expenditure and non-capital expenditure. Raised proceeds from the Issuance that are to be used to fund such non-capital expenditures as staff wages, goods payable, contingency costs, market and advertising expenses and initial working capital will be deemed as proceeds for replenishing working capital; R&D expenditure at the capitalisation stage will not be deemed as working capital; and expenditure on construction projects with more than one year of construction period will be deemed as capital expenditure.

In summary, the Issuance complies with the provision of Article 3 under Rule 5 of Applicable Opinions No.18.

- (3) A listed company should disclose the composition of capital expenditure and non-capital expenditure in the proceeds raised as well as the proportion of working capital to the proceeds raised, and demonstrate and illustrate the reason for the working capital and reasonableness of the scale taking into account its business scale, business growth, cash flow position, asset composition and capital occupation.

The Company has disclosed in the prospectus in relation to the proposed Issuance and other documents, the composition of capital expenditure and non-capital expenditure in the proceeds raised as well as the proportion of working capital to the proceeds raised, and illustrated the reasons for the supplement its working capital and reasonableness of the scale taking into account the Company's business scale, business growth, cash flow position, asset composition and capital utilisation.

In summary, the Issuance complies with the provision of Article 5 under Rule 5 of Applicable Opinions No.18.

(II) The Procedures of the Issuance Method Are Legal and Compliant

The proposed Issuance has been reviewed and approved at the tenth meeting of the seventh session of the Board, 2022 first extraordinary general meeting, 2022 first A shareholders' class meeting and 2022 first H shareholders' class meeting. Relevant documents have been disclosed on the website of SZSE, the website of the Stock Exchange and the media satisfying the conditions provided by the CSRC, and the Company has performed necessary review procedures and information disclosure procedures.

Under the requirements of relevant laws and regulations, the Issuance shall be subject to review and approval by Shenzhen Stock Exchange and approval from the CSRC for registration. After the registration approval is obtained from the CSRC, the Company will implement the Issuance according to laws, apply to Shenzhen Stock Exchange and Shenzhen Branch of China Securities Depository and Clearing Corporation Limited for handling share issuance, registration and listing, to complete all submission and approval procedures involved in the Issuance.

In summary, the review and approval procedures of the Issuance is legal and compliant and the issue method is feasible.

VI. FAIRNESS AND RATIONALITY OF THE PROPOSED ISSUANCE

The proposed Issuance has been reviewed and approved at the tenth meeting of the seventh session of the Board, 2022 first extraordinary general meeting, 2022 first A shareholders' class meeting and 2022 first H shareholders' class meeting. The implementation of the Issuance will be conducive to the sustainable and stable development of the Company and in the interest of all shareholders.

The proposed Issuance and related documents are disclosed on the website of SZSE, the website of the Stock Exchange and the media satisfying the condition provided by the CSRC, which ensures the right of all shareholders to be informed.

In summary, the proposed Issuance to specific targets has been carefully studied and approved by the Board of the Company, which is believed to be in the interests of all shareholders; the proposed Issuance and related documents have gone through relevant disclosure procedures to ensure shareholders' right to be informed. At the same time, the proposed Issuance will be subject to a fair vote by shareholders attending the general meeting, which will be fair and reasonable.

VII. IMPACT OF THE ISSUANCE ON THE DILUTION OF CURRENT RETURN, REMEDIAL MEASURES TAKEN AND RELEVANT UNDERTAKINGS

In accordance with the Several Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market issued by the State Council (Guo Fa [2014] No.17) (《國務院關於進一步促進資本市場健康發展的若干意見》(國發[2014]17號)), the Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legal Rights and Interests of Small and Medium Investors in the Capital Market (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)) and the Guiding Opinions on Matters Concerning Dilution of Immediate Return By Initial Public Offering, Refinancing, and Material Asset Restructuring (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(中國證監會公告[2015]31號)), the Company analysed the possible impact of the Issuance on current return, and proposed measures to make up for the dilution. Relevant subjects have given undertakings as to the effective implementation of the measures to make up for the dilution, the details of which are as follows:

(I) Impact of the Issuance of A Shares to Specific Targets on Key Financial Indicators of the Company

1. Major assumptions and prerequisite

- (1) Assuming no significant changes take place in the macro-economic environment and the conditions in the securities market, or the operating environment in which the Company operates, industrial policy and development condition of the industry;
- (2) Assuming that the Issuance is expected to be completed in June 2023. The completion time is only used to estimate relevant figure, and the actual completion time shall be the time of issuance after registration with the CSRC;
- (3) Assuming 236,893,391 shares will be issued, subject to the number of shares actually issued after registration with the CSRC, in the event there occurs bonus issue, repurchase, conversion of capital reserve into registered capital, equity incentive and other changes in the share capital during the interval between the date of the Board resolution in relation to the Issuance to the date of the Issuance, the final number of shares to be issued to specific targets will be adjusted accordingly;

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- (4) When predicting the total share capital of the Company, only the impact of the issuance of shares will be considered based on the total share capital before the Issuance of 789,644,637 shares, and the changes in the share capital caused by other factors will not be considered;
- (5) The impact of the use of the proceeds on the Company's production and operation and financial conditions (e.g., operating income, financial expenses, investment earnings, etc.) will not be considered in the estimation;
- (6) In predicting the Company's net assets, the impact of other factors other than proceeds, net profit, cash dividends and equity incentive plan on net assets will not be considered;
- (7) The Company's net profit attributable to owners of the parent company for the year 2021 was RMB34,156,300 and the net profit attributable to shareholders of the parent company after deducting non-recurring gains and losses was RMB1,609,200. In the absence of significant operational risks, it is assumed that the Company's profitability for the year 2022 and the year 2023 are at the same as those in the year 2021, respectively.
- (8) The above assumptions are solely made for the purpose of estimating the impact of dilution on the current return resulting from the Issuance on key financial indicators of the Company, and do not represent the Company's judgment on its operating conditions and trends for the year 2022 and the year 2023, nor does it constitute a profit forecast, and investors should not make investment decisions based on themselves.

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2. *Impact on key financial indicators of the Company*

Based on the above assumptions, the impact of dilution on the current return resulting from the Issuance on key financial indicators of the Company is as follows:

| Item | Year 2022/ 31 December 2022 | Year 2023/31 December 2023 Prior to the Issuance | After the Issuance |
|--|--|---|-------------------------------|
| Total share capital (<i>0'000 shares</i>) | 78,964.46 | 78,964.46 | 102,653.80 |
| Net profit attributable to shareholders of the listed company (<i>RMB0'000</i>) | 3,415.63 | 3,415.63 | 3,415.63 |
| Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses (<i>RMB0'000</i>) | 160.92 | 160.92 | 160.92 |
| Net assets attributable to holders of ordinary shares of the Company at the beginning of the period (<i>RMB0'000</i>) | 137,683.73 | 141,099.36 | 141,099.36 |
| Net assets attributable to holders of ordinary shares of the Company at the end of the period (<i>RMB0'000</i>) | 141,099.36 | 144,514.99 | 262,514.99 |
| Total number of shares under the Issuance (<i>0'000 shares</i>) | – | – | 23,689.34 |
| Total proceeds raised from the Issuance (<i>RMB0'000</i>) | | | 118,000.00 |
| Number of months from the month following the issue month to the end of the year | – | – | 6 |
| Basic earnings per share (<i>RMB</i>) | 0.04 | 0.04 | 0.03 |
| Basic earnings per share (<i>RMB</i>), net of non-recurring gains or losses | 0.002 | 0.002 | 0.002 |
| Weighted average return on net assets | 2.45% | 2.39% | 1.69% |
| Weighted average return on net assets after deducting non-recurring gains and losses | 0.12% | 0.11% | 0.08% |

Note 1: Basic earnings per share prior to the Issuance = net profit attributable to the holders of the ordinary shares of the Company for the current period / total share capital prior to the Issuance;

Note 2: Basic earnings per share after the Issuance = net profit attributable to the holders of the ordinary shares of the Company for the current period / (total share capital prior to the Issuance + number of new shares to be issued under the Issuance × number of months from the month following the issue month to the end of the year / 12);

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Note 3: Weighted average return on net assets prior to the Issuance = net profit attributable to holders of the ordinary shares of the Company for the current period / (net assets attributable to the holders of the ordinary shares of the Company at the beginning of the period + net profit attributable to the holders of the ordinary shares of the Company for the current period / 2 – cash dividend for the current period × number of months from the month following the dividend distribution month to the end of the year / 12);

Note 4: Weighted average return on net assets after the Issuance = net profit attributable to holders of the ordinary shares of the Company for the current period / (net assets attributable to the holders of the ordinary shares of the Company at the beginning of the period + net profit attributable to the holders of the ordinary shares of the Company for the current period / 2 – cash dividend for the current period × number of months from the month following the dividend distribution month to the end of the year / 12 + total proceeds raised from the Issuance × number of months from the month following the Issuance month to the end of the year / 12).

According to the above table, with the increase in the share capital of the Company upon completion of the Issuance, if the Company's results do not increase to a corresponding extent upon completion of the Issuance, the Company's basic earnings per share and other indicators will decline to a certain extent within a short term and the current return to shareholders will have a certain degree of dilution.

(II) Risk Warning for the Dilution on the Current Return as a Result of the Issuance

Upon the completion of the Issuance, to a certain degree, the total share capital and net assets of the Company will increase, and the comprehensive capital strength of the Company will be enhanced. The Company will make reasonable arrangements for the proceeds to expand its production line and establish an R&D center, thereby expanding its scale of operation and enhancing its profitability. However, according to the above calculation, the Issuance may result in a certain degree of decline in the Company's basic earnings per share and other indicators in the short term and a certain degree of the dilution on the current return to shareholders. The Company specially reminds investors to invest rationally and pay attention to the risk of dilution of current return resulting from the Issuance.

At the same time, in the process of calculating the effects on dilution on the current return as a result of the Issuance, the Company's assuming analysis of net profit attributable to owners of the parent company and net profit attributable to owners of the parent company after deducting non-recurring gains and losses do not constitute the profit forecast of the Company. Although the Company has formulated remedial measures in response to the risks for the dilution on current returns, such measures shall not be deemed as guarantee of the future profits of the Company. Investors shall not make investment decisions based on the above. The Company will not be liable for the losses suffered by investors due to the investment decisions made based on the above. Investors are advised to exercise caution.

(III) Specific Measures to Make up for the Diluted Current Return

1. Accelerate the implementation of the investment projects to achieve expected benefits

Recently, with the continued increase of downstream automobile market and the proportion of new energy vehicles, the market demand of automotive steering has also further boosted. As the progressive implementation of the investment projects of the Issuance, the existing production equipment, the scale of production and R&D strength of the Company will be enhanced, while better catering the market demand, operating results of the Company will be significantly improved, which can fill in to the dilution on the current return as a result of the Issuance for the shareholders.

As a result, upon the proceeds of the Issuance is available, the Company will actively allocate resources in all areas, work on the implementation of the investment projects and maximise the utilisation efficiency of the proceeds, and accelerate the implementation of projects, so as to achieve the expected benefits as soon as possible and provide guarantee for the shareholders' returns in the future years.

2. Actively expand the market and improve products competitiveness

The product sales of the Company are mainly in the domestic market, enabling the Company to become a Tier-1 OEM supplier among domestic and international automakers with good reputation. On the one hand, such high-quality customers have strong competitive market and stable demand for their products, which laid a strong foundation for the development of the Company's business; on the other hand, such customers are demanding in terms of design and quality of products with higher added value, ensuring the higher profit level of the Company. Recently, overseas markets development of the Company has also begun to show results.

In the future, based on maintaining existing customers, the Company will consistently step up efforts in capturing new customers, especially the high-quality customers, and actively develop the oversea markets. On the one hand, the Company will be able to strengthen its position in the automotive steering by building a wider business cooperation with the customers and improving the product sales; on the other hand, the Company will promote the development of the industry in the intelligence and innovation by constantly improving the competitiveness of its products and its own profit level.

3. *Constantly improve the governance and enhance management of the Company*

In accordance with requirement of relevant laws and regulations and normative documents, the Company has formulated a series of systems and rules, and has relatively well-established systems of general meetings, the board of directors and supervisory committee, to form a corporate governance structure with clear authorisation and responsibilities, specific duties, and effective balances between organ of authority, decision-making body, supervisory body and management; the Company has established management system covering quality, safe production, internal control, marketing management and human resources, and adjusted the related structure taking into account of actual situation of the Company, with the purpose to set up efficient and independent organisational function organisations that compatible with the production and operation of the Company.

In the future, the Company will increase the introduction and cultivation of talents, and continue to enhance its organizational capabilities, further improving the corporate governance and the awareness of standard management, and strengthen the management of internal government and financial government, so as to enhance its standard operation and management level of the Company.

4. *Strengthen the supervision of proceeds and improve the efficiency of proceeds*

To regulate the use and management of proceeds of the Company and ensure the use of the proceeds to be standardised, safe and efficient, the Company has formulated the Management Rules of Proceeds in accordance with the requirements of relevant law and regulations to standardise storage, use and management of proceeds and ensure security of the storage and use of the proceeds. Upon the completion of the Issuance, the proceeds shall be deposited into the special accounts designated by the board of directors for centralised management. The board of directors will continue to supervise the deposit and use of the proceeds, conduct regularly internal review for the proceeds and coordinate with regulatory banks and sponsor for inspection and supervision on the use of proceeds to ensure the reasonable and compliant use of proceeds and reasonably prevent the risks in relation to the use of proceeds.

5. *Enhance the building of talent team to boost vitality for development*

The Company has established an employee remuneration and evaluation system, which is in line with its operation and development. Meanwhile, the Company pays attention to skill training of employees and team building, so as to ensure that the personnel reserve of the Company meet its development demands. In addition, the Company has established a flexible talent introduction and incentive policy to attract external excellent talents to join the Company. In the future, the Company will make ongoing improvements to the approaches of its performance appraisal, establish a more effective employment incentive and competition mechanism, formulate a more scientific and reasonable mechanism of talent recruitment and training that caters to actual needs, and fully mobilise the agency of employees, so as to continuously inject vitality for the subsequent development of the Company.

6. *Strictly implement the cash dividend policy and enhance the return for investors*

According to the requirements of the Notice Regarding Further Implementation of Cash Dividends Distribution by Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) and the Listed Companies Regulatory Guidance No. 3 – Cash Dividends Distribution by Listed Companies (《上市公司監管指引第3號 – 上市公司現金分紅》) issued by CSRC, the Company has formulated the Plan for Shareholders' Return (2022-2024), based on full consideration of the return on shareholders' investment and the future operation and development and combined with the actual situation of the Company. The formulation and perfection of the aforesaid system further clarifies the decision-making procedures and mechanism of dividend distribution and the specific proportion of bonus shares to be issued of the Company, which will effectively guarantee the reasonable investment return of all shareholders.

In the future, the Company will continue to strictly implement its dividend policy and optimise the investment return mechanism to ensure that the interests of its shareholders, especially the minority shareholders, can be protected.

(IV) Undertakings of Controlling Shareholders, Actual Controllers, Directors and Senior Management of the Company on the Company's Remedial Measures for Current Return

In accordance with the requirements of the Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legal Rights and Interests of Small and Medium Investors in the Capital Market (Guo Ban Fa [2013] No. 110)* (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)), the Several Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market (Guo Fa [2014] No. 17)* (《國務院關於進一步促進資本市場健康發展的若干意見》(國發[2014]17號)) and the Guiding Opinions on Matters Concerning Dilution of Immediate Return by Initial Public Offering, Refinancing, and Material Assets Reorganization (CSRC Announcement [2015] No. 31)* (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(中國證監會公告[2015]31號)), the Company has conducted analysis of the impact on the current return as a result of the Issuance and proposed specific remedial measures for return. All directors, senior management, controlling shareholders and actual controllers of the Company have made corresponding undertakings to ensure the effective implementation of the Company's remedial measures for return, as detailed below:

1. Undertakings of all directors and senior management of the Company to take remedial measures for the diluted current return caused by the Issuance:

- “(1) I hereby undertake not to transfer benefits to other entities or individuals with no consideration or under unfair terms, and shall not damage the Company's interests in any other ways;
- (2) I hereby undertake to constrain the consumption behavior in relation to my work duty;
- (3) I hereby undertake not to use the Company's assets for investments or consumption activities that are unrelated to the engagement and performance of my work duties;
- (4) I hereby undertake that the remuneration system formulated by the board of directors or the remuneration and evaluation committee will be linked with the implementation of the Company's remedial measures in relation to the returns of the Company;

- (5) I hereby undertake that if the Company implements any share incentive plan in the future, the vesting terms shall be operated in line with the implementation of the Company's remedial measures for the dilution of returns.

Upon the date of this undertaking, for any new regulatory measures issued by CSRC and the Shenzhen Stock Exchange in relation to the remedial measures and the undertakings that causes the above undertakings to fail to meet such requirements, I hereby undertake that I shall make further undertaking(s) in accordance with those new requirements issued by CSRC and the Shenzhen Stock Exchange.

As one of responsible persons for taking the remedial measures, if I violate or refuse to perform the above undertaking, I agree to be subject to the punishment or other relevant regulatory measures against me by CSRC, the Shenzhen Stock Exchange or other security regulators in accordance with the relevant regulations and rules formulated or issued by them.”

2. *Undertakings of the controlling shareholders and actual controllers of the Company to take remedial measures for the diluted current return caused by the Issuance:*

“The Company/I undertake not to interfere with the operation and management activities of the Company beyond authorities or encroach on the interests of the Company, and effectively implement the remedial measures on dilution of current returns of the Company.

Upon the date of this undertaking, for any new regulatory measures issued by CSRC and the Shenzhen Stock Exchange in relation to the remedial measures and the undertakings that makes the relevant systems of the Company and the Company's/my undertakings fails to meet such requirements, the Company/I hereby undertake that we shall make further undertaking(s) in accordance with those requirements issued by CSRC and the Shenzhen Stock Exchange, and actively promote the revision of the Company's systems, so as to comply with the requirements of CSRC and the Shenzhen Stock Exchange.

As one of responsible persons for taking the remedial measures, if the Company/I violate or refuse to perform the above undertakings, the Company/I agree to be subject to the punishment or other relevant regulatory measures against it/me by CSRC, the Shenzhen Stock Exchange or other securities regulators in accordance with the relevant rules and regulations formulated or issued by them.”

VIII. CONCLUSION

In summary, it is necessary and feasible for the Company to offer shares to specific targets. The proposed Issuance is fair and reasonable, complies with the requirements of relevant laws and regulations, and will be conducive to further improving the Company's competitiveness, which is in line with the Company's development strategy and in the interest of the Company and all of its shareholders.

The Board of Directors of
Zhejiang Shibao Company Limited