



浙江世寶股份有限公司

ZHEJIANG SHIBAO COMPANY LIMITED*

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

Stock Code : 1057

STEERING THE FUTURE

* For identification purposes only

Annual Report 2023

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Important Notice:

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

CORPORATE INFORMATION

(English translation for reference only)

Legal Name	Zhejiang Shibao Company Limited* 浙江世寶股份有限公司
Board of Directors	Executive Directors Mr. Zhang Bao Yi (張寶義) (<i>Vice Chairman and General Manager</i>) Mr. Tang Hao Han (湯浩瀚) (<i>Vice Chairman and Deputy General Manager</i>) Ms. Zhang Lan Jun (張蘭君) (<i>Finance Director</i>) Ms. Liu Xiao Ping (劉曉平) (<i>Deputy General Manager and Board Secretary</i>) Non-executive Directors Mr. Zhang Shi Quan (張世權) (<i>Chairman</i>) Mr. Zhang Shi Zhong (張世忠) Independent Non-executive Directors Mr. Gong Jun Jie (龔俊傑) Mr. Lin Yi (林逸) Mr. Tsui Chun Shing (徐晉誠)
Supervisors	Mr. Du Min (杜敏) Mr. Yang Di Shan (楊迪山) Mr. Wu Lang Ping (吳琅平) Mr. Shen Song Sheng (沈松生) (Passed away on 31 January 2023) Ms. Feng Yan (馮燕) Mr. Zhang Zhi Long (張治龍) (Appointed on 31 March 2023)
Senior Management	Mr. Yu Zhong Chao (虞忠潮)
Audit Committee	Mr. Tsui Chun Shing (徐晉誠) (<i>Chairman</i>) Mr. Zhang Shi Zhong (張世忠) Mr. Lin Yi (林逸)
Remuneration Committee	Mr. Tsui Chun Shing (徐晉誠) (<i>Chairman</i>) Mr. Zhang Shi Zhong (張世忠) Mr. Lin Yi (林逸)
Nomination Committee	Mr. Lin Yi (林逸) (<i>Chairman</i>) Mr. Tsui Chun Shing (徐晉誠) Ms. Zhang Lan Jun (張蘭君)
Investment and Strategy Committee	Mr. Zhang Shi Quan (張世權) (<i>Chairman</i>) Mr. Zhang Bao Yi (張寶義) Mr. Tang Hao Han (湯浩瀚)
Environmental, Social and Governance Committee	Mr. Zhang Bao Yi (張寶義) (<i>Chairman</i>) Mr. Zhang Shi Quan (張世權) Mr. Tang Hao Han (湯浩瀚)

* For identification only

Secretary of the Board

Ms. Liu Xiao Ping (劉曉平)

Company Secretary

Ms. Huen Lai Chun (禰麗珍)

Authorised Representatives

Ms. Zhang Lan Jun (張蘭君)

Ms. Huen Lai Chun (禰麗珍)

Registered Office

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

Principal Place of Business in Hong Kong

Unit C, 5/F., Jonsim Place
228 Queen's Road East, Wanchai
Hong Kong

Legal Advisers

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

Auditors

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

Principal Bankers

Agricultural Bank of China, Yiwu Branch
– Fotang Sub-branch
No. 85 Jianshe Road, Fotang, Yiwu, Zhejiang Province, China

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

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

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

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

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

CORPORATE INFORMATION

(English translation for reference only)

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

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

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

Industrial and Commercial Bank of China, Siping Branch
– Zhongyang Dong Lu Sub-branch
No. 141 Nanyijing Jie, Siping, Jilin Province, China

Industrial and Commercial Bank of China, Yiwu Branch
– Yiwu Sub-branch
No. 128 Huangyuan Road, Yiwu, Zhejiang Province, China

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

Bank of NingBo Co., Ltd.
– Hangzhou Xiaoshan Branch
No. 348 Jinhui Road, Xiaoshan, Hangzhou, Zhejiang Province, China

Bank of China Limited
– Siping DiZhi Street Branch
No. 311 Dizhi Street, Tiexi District, Siping City, Jilin Province, China

Bank of NingBo Co., Ltd.
– Jinhua Yiwu Fotang Small and Micro Integrated Branch
No. 1045-1049, Block 11, Baolong Plaza, Fotang Town,
Yiwu, Zhejiang Province, China

Hong Kong H Share Registrar and Transfer Office

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

Contact Information

Corporate communication/Investor relations

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Company secretary services

Ms. Huen Lai Chun (禰麗珍) *Company Secretary*
Unit C, 5/F., Jonsim Place
228 Queen's Road East, Wanchai
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Place of Listing

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

Website

www.zjshibao.com

CORPORATE PROFILE

(English translation for reference only)

1. COMPANY PROFILE

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

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

The Company is mainly engaged in the research and development, manufacturing and sales of automotive steering gear and other steering system key components. We have five production sites in Hangzhou, Yiwu, Siping and Wuhu, as well as a group research institute in Hangzhou and an automotive intelligent technology research and development center in Beijing. The Company is capable to provide all kinds of steering products for commercial cars, passenger cars and new energy cars. The Company has accumulated over 30 years of experience in OEM supply in automobile industry with diverse customer resources worldwide, enabling the Company to become a Tier-1 OEM supplier among the automakers with good reputation. The Company is one of the first enterprises in China to independently develop automotive electric power steering system and automobile intelligent steering system, providing advanced active steering solutions for autonomous vehicles.

As a supplier to automakers, the Company develops steering gears and other key components for their steering systems in accordance with the technical and quality requirements of automakers, and arranges purchases and production plans based on the number of orders received from automakers, and sells mainly through direct supply to automakers. In general, after successful development of a product for automakers, the technical department will deliver a sample to the them for testing, and after the test period is completed and passed, arrange for mass production. After the products have entered the batch production stage, the sales department will obtain monthly orders from the OEMs and send them to the production department to organize production, and at the same time will dispatch personnel to the automakers to maintain the relationship with customers and coordinate after-sales service.

2. ANALYSIS ON CORE COMPETITIVENESS

(1) Customer advantages

The automotive steering system is a security component of the vehicle, which is directly related to the safety of the vehicle and is one of the core components of the vehicle. As a result, there is a high barrier to entry into the automotive steering system industry and automakers tend to cooperate with suppliers for a long time and stability. Generally, steering system manufacturers have to go through multiple levels of standards review by automakers and third parties before becoming a supplier to automakers, and then pass small-batch trial production before they are officially entered into their qualified supplier list for batch supply, thus the new customer introduction cycle is longer. With leading technology research and development capabilities, advanced manufacturing processes, a stable and dedicated team and a high level of corporate governance, the Company has accumulated rich experience in system support and international customer resources in the automotive industry, and has become an important independent brand manufacturer of automotive steering systems.

(2) R&D and technical advantages

The Company has always paid attention to technical research and development investment, and has strong technical balance strength and design and development capabilities. After years of technical accumulation and production practice, the Company has a strong electric power steering system, recirculation ball steering (including hydraulic, electric and electro-hydraulic and other assistance methods) and intelligent wire-controlled steering design and manufacturing capabilities, and has made technical reserves in the area of wire-controlled chassis, which formed seven core technical capabilities, including steering system design and matching technology, rotary hydraulic control valve technology, electric power steering ECU technology, steering cash manufacturing technology, recirculation ball electric steering technology, intelligent wire-controlled steering and intelligent wire-controlled chassis. Meanwhile, in terms of new product development, the Company has strong supporting development capabilities and can carry out supporting development for a number of projects at the same time, and has accumulated a wealth of experience in high-end models. In terms of production process, the Company also has strong process research and development capabilities, it carries out independent design and integration innovation in the core assembly and testing production line to create an intelligent production line, which has various functions such as online automatic assembly, online testing, online data storage, online data analysis and long-term data traceability, and also has the ability to conduct flexible production, and can realize rapid iteration of the production line with subsequent product upgrades.

(3) Product quality advantage

The Company always attaches great importance to its product quality, and independent quality assurance department is established in each principal subsidiaries, It also develops a series of strict quality control and management system, in order to achieve strict management and control throughout the full process of raw material procurement, production and after-sales services, establishing a quality management and control system with interconnection of supplier quality control, production process quality control and after-sales product quality control and management. In addition, the Company applies imported processing equipment for its key processes, and for other processing equipment, it also selects those from domestic top manufacturers. These advancing equipment facilitates the improvement of processing accuracy, as well as production efficiency and ensures the stability of product quality. All of principal subsidiaries of the Company have passed the IATF 16946:2016 Quality System Certification, and are appreciated by customers for their stable product quality.

(4) Abundant product line advantage

In terms of the Company's comprehensive products, it can produce full range of manual rack and pinion steering gear for passenger vehicles hydraulic power, electric power, and electro-hydraulic recirculating ball steering gear for commercial vehicles, column-assisted electric power steering (CEPS), pinion-assisted electric power steering (PEPS), double-pinion-assisted electric power steering (DPEPS) and rack-assisted electric power steering (REPS) for passenger vehicles. Furthermore, the Company made great investment in research and development and production equipment in recent years with new products of intermediate shaft and steering column, further enriching the Company's product lines, which provide customers with diverse automobile steering solutions. The Company adopts a flexible production model that establishes a flexible product line through equipping with multiple CNC machining centres and processing machines, and adopts the Toyota Production System, which allows us to change our product varieties in a rapid and effective manner, and achieve multi-variety batch supply.

CORPORATE PROFILE

(English translation for reference only)

(5) Cost advantage

The Company has applied the Toyota Production System (TPS) to its procurement system, production system, and equipment research and development system since 2005. Absorbing the essence of the TPS management system, the Company has developed its own management system based on its characteristics. Through implementing refined management, as well as tracking and monitoring the full production process in real time, the Company reduced the scrap rate, and shortened the production cycle, which effectively controlled its cost of production. The Company's principal production bases are located in Zhejiang Province, Jilin Province and Anhui Province, with concentrated automobile industries in surrounding regions, which facilitates the Company to procure raw materials and spare parts in the vicinity and reduce its procurement costs. Over the years, the Company has focused on maintaining sound relationships with its suppliers, effectively controlling the product quality and procurement cost of the Company's casting, ancillary parts and other raw materials. In addition, the processing and production of the Company's core components and key processes are mainly conducted by itself, which effectively controls the cost and ensures its product quality, enhancing the profitability of the Company.

(6) Team advantage

The Company has a stable and experienced technical, management and marketing team. The core personnel of the existing team have an average of more than 15 years of experience in the industry, as well as extensive management skills and experience in business operation, research and development, technology management and marketing, and establish an accurate understanding of the industrial development and dynamics. They have served the Company for many years, building a stable and harmonious working atmosphere. In addition, the Company attaches importance to the selection, cultivation and appointment of talents in technology, management and marketing, pay attention to maintaining a reasonable age gradient of the team, in order to reserve sufficient human resources for future product research and development, production expansion and market development.

FIVE-YEAR FINANCIAL SUMMARY

(English translation for reference only)

A summary of the published results, assets and liabilities of the Group for the past five years ended 31 December 2023 are set out below. The relevant information were prepared on a consolidated basis and based on China Accounting Standards for Business Enterprises.

RESULTS

	For the year ended 31 December				
	2023 RMB0,000	2022 RMB0,000	2021 RMB0,000	2020 RMB0,000	2019 RMB0,000
Revenue	181,944	138,640	117,792	110,213	98,237
Total profit	8,400	1,863	2,770	3,616	-20,417
Net profit	8,487	1,826	2,560	3,460	-19,588
Minority interests	766	244	-856	-625	-1,917
Net profits attributable to equity holders of the parent	7,720	1,582	3,416	4,085	-17,671
Basic earnings per share (RMB)	0.10	0.02	0.04	0.05	-0.2238
Diluted earnings per share (RMB)	0.10	0.02	0.04	0.05	-0.2238

ASSETS AND LIABILITIES

	As at 31 December				
	2023 RMB0,000	2022 RMB0,000	2021 RMB0,000	2020 RMB0,000	2019 RMB0,000
Non-current assets	96,852	98,933	97,481	99,589	98,414
Current assets	168,216	140,016	110,065	98,035	99,106
Current liabilities	112,323	93,887	66,406	58,978	62,542
Net current assets	55,892	46,129	43,659	39,057	36,564
Equity attributable to equity holders of the parent	146,987	139,266	137,684	134,268	130,183
Total liabilities and equity	265,068	238,948	207,546	197,625	197,520

CHAIRMAN'S STATEMENT

(English translation for reference only)

I would like to present on behalf of the Board the report of the audited results of the Group for the year ended 31 December 2023.

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

During the Reporting Period, the sales volumes of the Company's hydraulic power recirculation ball steering gears and electric power steering system products increased as the overall performance of automobile industry was good. Meanwhile, the mass production of new products, such as intelligent electric recirculation ball steering gears, intelligent electrohydraulic recirculation ball steering gears, steering column and intermediate shafts, has commenced, which generating new revenue streams for the Company. The Company recorded a revenue of RMB1,819,442,221.52, representing an increase of 31.24% as compared with last year.

During the Reporting Period, the gross profit of the Company's main business amounted to RMB320,744,815.32, representing an increase of RMB89,221,698.58 as compared with last year. The gross profit margin of the Company's main business was 18.43% (2022: 17.43%). The increase in the gross profit margin of the Company was mainly due to the combined effect of the increase in the sales volume of hydraulic power re-circulation ball steering gears, which resulting in cost improvement, and the mass production of new products such as electric steering column and smart electric recirculating ball steering gear, which have leading technology and higher gross profit margin.

Looking forward, the Company will continue to focus on its main business, promote the marketization of the Company's electric and intelligent automotive steering system products, assisting in high-level autonomous driving of vehicles and facilitating the localization of automotive components.

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

Zhang Shi Quan

Chairman

Hangzhou, Zhejiang, the PRC
28 March 2024

REVIEW OF CHINA AUTOMOBILE INDUSTRY

In 2023, production and sales volume of China automobile industry were 30,161,000 units and 30,094,000 units respectively, representing an increase of 11.60% and 12.00% respectively as compared with last year. Production and sales volume of passenger vehicles were 26,124,000 units and 26,063,000 units respectively, representing an increase of 9.60% and 10.60% respectively as compared with last year; among passenger vehicles, sales volume of China-brand passenger vehicles was 14,596,000 units, representing an increase of 24.10% as compared with last year. Production and sales volume of commercial vehicles were 4,037,000 unit and 4,031,000 units respectively, representing an increase of 26.80% and 22.10% respectively as compared with last year; among commercial vehicles, production and sales volume of trucks were both 3,539,000 units, representing an increase of 27.40% and 22.40% respectively as compared with last year; and production and sales volume of buses were 498,000 units and 492,000 units respectively, representing an increase of 22.50% and 20.60% respectively as compared with last year. Production and sales volume of new energy vehicles were 9,587,000 units and 9,495,000 units respectively, representing an increase of 35.80% and 37.90% respectively as compared with last year; among them, the production and sales of new energy commercial vehicles accounted for 11.50% and 11.10% of the production and sales of commercial vehicles respectively, and the production and sales of new energy passenger vehicles accounted for 34.90% and 34.70% of the production and sales of passenger vehicles respectively. The top ten automaker groups in China sold 25,715,000 units of automobiles, representing an increase of 9.90% as compared with last year, and their sales represented 85.40% of the total sales of the automobiles, representing a decrease of 1.70 percentage points as compared with last year.

ANALYSIS OF MAIN BUSINESS

1) Overview

During the Reporting Period, the sales volumes of the Company's hydraulic power recirculation ball steering gears and electric power steering system products increased as the overall performance of automobile industry was good. Meanwhile, the mass production of new products, such as intelligent electric recirculation ball steering gears, intelligent electrohydraulic recirculation ball steering gears, steering column and intermediate shafts, has commenced, which generating new revenue streams for the Company. The Company recorded a revenue of RMB1,819,442,221.52, representing an increase of 31.24% as compared with last year.

During the Reporting Period, the gross profit of the Company's main business amounted to RMB320,744,815.32, representing an increase of RMB89,221,698.58 as compared with last year. The gross profit margin of the Company's main business was 18.43% (2022: 17.43%). The increase in the gross profit margin of the Company was mainly due to the combined effect of the increase in the sales volume of hydraulic power re-circulation ball steering gears, which resulting in cost improvement, and the mass production of new products such as electric steering column and smart electric recirculating ball steering gear, which have leading technology and higher gross profit margin.

The Company's selling expenses was RMB63,149,039.78, representing an increase of 21.34% as compared with last year, mainly due to the increase in expenses such as warranty expenses, agency service fees and business entertainment expenses as a result of the expansion of business scale. Selling expenses as a percentage of revenue was 3.47%, lower than 0.28 percentage point as compared with the same period last year.

During the Reporting Period, the Company's general and administrative expenses was RMB109,307,880.14, representing an increase of 24.46% as compared with last year, mainly due to the combined effect of the increase in business entertainment expenses, travel expenses and other expenses as a result of the expansion of business scale, the increase in employee remuneration as a result of the increase in personnel, and the use of third-party technology and testing facilities during the period. Administrative expenses as a percentage of revenue was 6.01%, lower than 0.33 percentage point as compared with the same period last year.

During the Reporting Period, the Company's research and development expenses amounted to RMB118,196,951.05, representing an increase of 18.59% as compared with last year. The research and development expenses accounted for 6.50% of revenue, lower than 0.69 percentage point as compared with the same period last year. The Company's research and development expenses are mainly used on the technical research of automotive steering system's safety, intelligent, automatic, energy saving and light weight, so as to maintain the Company's competitive edge in respect of sustainable development. During the Reporting Period, the Company's research and development expenses were mainly invested in the core technical fields of steering's motorised, intelligent and automation.

During the Reporting Period, the Company's financial expenses was RMB6,072,232.49, representing an increase of 25.16% as compared with last year, which was mainly attributable to the increase in interest expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

During the Reporting Period, other income amounted to RMB30,291,802.93, of which government grants amounted to RMB18,887,393.18 and VAT super deduction amounted to RMB10,420,075.21. Gains from changes in fair value amounted to RMB-265,698.17 (same period of last year: RMB-1,141,664.33), which was mainly due to the changes in fair value of the shares acquired by the Company as a creditor due to debt restructuring. Credit impairment losses amounted to RMB2,760,529.44 (same period of last year: RMB-1,589,469.25), mainly due to the recovery of accounts receivable with bad debt provision on individual basis from previous years in the current period. The impairment loss of assets was RMB-12,899,491.01 (same period of last year: RMB-19,975,166.26), which was mainly due to the decrease in the provision for impairment of inventories during the current period. Gain on disposal of assets was RMB-473,679.45 (same period of last year: RMB5,113,339.09), which was mainly due to the fact that there was no significant gain on disposal of fixed assets in the current period.

During the Reporting Period, non-operating expenses amounted to RMB2,915,570.63, representing an increase of 685.23% as compared with last year, which was mainly due to the loss on scrapping of equipment, and the increase in charitable and public welfare donations.

During the Reporting Period, the Company's income tax expenses amounted to RMB-862,485.68 (corresponding period of last year: RMB369,207.41), which was mainly due to the combined effect of no current income tax expense for the current period; the increase in deductible temporary differences in the current period causing the corresponding increase in the accrual of the deferred income tax assets; and the decrease in taxable temporary differences in the current period causing the corresponding decrease in the accrual of the deferred income tax liabilities.

In view of the above, the Company recorded a net profit attributable to shareholders of listed company of RMB77,204,342.79 during the Reporting Period, representing an increase of 387.91% as compared with last year.

2) Revenue and Cost

(1) Composite and Cost

Unit: RMB

	2023		2022		Change
	Amount	Proportion	Amount	Proportion	
Total Revenue	1,819,442,221.52	100.00%	1,386,395,566.38	100.00%	31.24%
By industry					
Manufacture of automotive components and parts	1,740,240,817.04	95.65%	1,328,037,578.29	95.79%	31.04%
Others	79,201,404.48	4.35%	58,357,988.09	4.21%	35.72%
By products					
Steering system and parts	1,679,175,475.94	92.29%	1,237,045,742.62	89.23%	35.74%
Parts and others	61,065,341.10	3.36%	90,991,835.67	6.56%	-32.89%
Others	79,201,404.48	4.35%	58,357,988.09	4.21%	35.72%
By geography					
Domestic	1,721,739,801.94	94.63%	1,267,557,479.69	91.43%	35.83%
Abroad	97,702,419.58	5.37%	118,838,086.69	8.57%	-17.79%
Sales mode					
Vehicle package	1,777,727,972.41	97.71%	1,358,846,650.97	98.01%	30.83%
After-sales service market	41,714,249.11	2.29%	27,548,915.41	1.99%	51.42%

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

(2) Details of industry, product, district and sales mode accounted for over 10% of the Company's revenue or operating profit

Unit: RMB

	Revenue	Cost of sales	Gross profit margin	Change of revenue over last year	Change of cost of sales over last year	Change of gross profit margin over last year
By industry						
Manufacture of automotive components and parts	1,740,240,817.04	1,419,496,001.72	18.43%	31.04%	29.46%	1.00%
By products						
Steering system and parts	1,679,175,475.94	1,382,743,031.49	17.65%	35.74%	33.84%	1.17%

(3) Production of automobile components products

Unit: Units/pieces

	Production			Sales		
	Reporting year	Last year	Change	Reporting year	Last year	Change
By components classification						
Steering system and parts	2,898,213	2,214,891	30.85%	2,821,409	2,155,984	30.86%

Production, sales and inventory

Industry classification	Item	Unit	2023	2022	Change
Manufacture of automotive components and parts (Steering system and parts)	Sales	Units/pieces	2,821,409	2,155,984	30.86%
	Production	Units/pieces	2,898,213	2,214,891	30.85%
	Inventory	Units/pieces	395,853	319,049	24.07%

(4) Structure of cost of sales

Unit: Yuan

Product classification	Item	2023		2022		Change
		Amount	Proportion to cost of sales	Amount	Proportion to cost of sales	
Steering system and parts	Raw material	1,072,283,913.15	77.55%	788,434,578.41	76.32%	36.00%
	Labour cost	79,649,256.30	5.76%	62,350,189.31	6.04%	27.75%
	Manufacturing expenses	207,541,629.25	15.01%	161,679,894.46	15.64%	28.37%
	Transportation cost	23,268,232.79	1.68%	20,660,869.47	2.00%	12.62%

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

(5) Major customers and suppliers

Major customers of the Company

Total sales of the top five customers (RMB)	1,095,141,167.01
Proportion of total sales of the top five customers over total sales for the year	60.19%
Proportion of sales of related parties in the top five customers over total sales for the year	–

Information of top five customers of the Company

No.	Name of customers	Sales (RMB)	Percentage over the total sales for the year
1	Chery Automobile Co., Ltd.* (奇瑞汽車股份有限公司)	432,323,166.21	23.76%
2	Geely Automobile Group Company Limited* (吉利汽車集團有限公司)	287,198,762.53	15.78%
3	NIO Holding Co., Ltd.	137,663,575.58	7.57%
4	China FAW Group Co., Ltd. (中國第一汽車集團有限公司)	133,238,104.11	7.32%
5	Tiba International Trading (SHANGHAI) Co., Ltd. (提拔國際貿易(上海)有限公司)	104,717,558.58	5.76%
Total		1,095,141,167.01	60.19%

Major suppliers of the Company

Total purchases attributable to the top five suppliers (RMB)	286,213,980.82
Proportion of total purchases attributable to the top five suppliers over total purchases for the year	22.39%
Proportion of purchases of related parties in the top five suppliers over total purchases for the year	–

Information of top five suppliers of the Company

No.	Name of suppliers	Purchase (RMB)	Percentage over the total purchase for the year
1	Nidec Kaiyu Auto Electric (Jiangsu) Co., Ltd. (尼得科凱宇汽車電器(江蘇)有限公司)	122,117,086.04	9.55%
2	Valeo Automotive Internal Control (Shenzhen) Co., Ltd. (法雷奧汽車內部控制(深圳)有限公司)	72,225,375.82	5.65%
3	Hangzhou Chengda Machinery Co., Ltd. (杭州成達機械有限公司)	35,565,514.87	2.78%
4	Shanghai Beite Technology Co., Ltd. (上海北特科技股份有限公司)	28,338,524.24	2.22%
5	Bosch Automotive Products (Changsha) Co., Ltd. (博世汽車部件(長沙)有限公司)	27,967,479.85	2.19%
Total		286,213,980.82	22.39%

Note: Customers and suppliers mentioned-above under the control of the same de facto controller have been presented on a consolidated basis, except those actually controlled by the same state-owned asset management institution.

3) Research and Development Investments

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

R&D staff of the Company

	2023	2022	Change
Number of R&D staff (person)	426	381	11.81%
Proportion of R&D staff	21.96%	22.45%	-0.49%
Education of R&D staff			
Bachelor	291	285	2.11%
Master	16	14	14.29%
Age of R&D staff			
Below 30	232	204	13.73%
30-40	176	159	10.69%

R&D investment of the Company

	2023	2022	Change
Amount of R&D investment (Yuan)	118,196,951.05	99,668,577.85	18.59%
Share of R&D investment in operating revenue	6.50%	7.19%	-0.69%
Amount of capitalization of R&D investment (Yuan)	-	-	-
Share of capitalized R&D investment in R&D investment	-	-	-

4) Cash Flows

Unit: Yuan

Item	2023	2022	Change
Sub-total of cash inflow from operating activities	924,164,660.43	988,202,760.66	-6.48%
Sub-total of cash outflow from operating activities	920,967,944.96	877,331,479.85	4.97%
Net cash flows from operating activities	3,196,715.47	110,871,280.81	-97.12%
Sub-total of cash inflow from investing activities	351,148,179.27	242,648,275.17	44.71%
Sub-total of cash outflow from investing activities	401,565,992.13	359,793,006.40	11.61%
Net cash flows from investing activities	-50,417,812.86	-117,144,731.23	56.96%
Sub-total of cash inflow from financing activities	172,700,000.00	225,000,000.00	-23.24%
Sub-total of cash outflow from financing activities	161,540,103.57	205,508,382.41	-21.39%
Net cash flows from financing activities	11,159,896.43	19,491,617.59	-42.75%
Net increase in cash and cash equivalents	-35,812,236.20	13,030,787.85	-374.83%

During the Reporting Period, the net cash flows from operating activities was RMB3,196,715.47, representing a decrease of 97.12% as compared with last year, which was mainly due to the increase in sales, resulting in the corresponding increase in accounts receivable, and part of the accounts receivable is not yet due. The net cash flows from investing activities was RMB-50,417,812.86, representing an increase of 56.96% as compared with last year, which was mainly due to the increase in cash receipts for redemption of short-term bank wealth management products. The net cash flows from financing activities was RMB11,159,896.43, representing a decrease of 42.75% as compared with last year, which was mainly due to the decrease in the net amount of bank borrowings repaid. To sum up, the net increase in cash and cash equivalents during the Reporting Period was RMB-35,812,236.20, representing a decrease of 374.83% as compared with last year.

For the difference between the net cash flows from operating activities and the net profit for the year during the Reporting Period, please refer to "Supplemental information on the statement of cash flows" set out on page 128 in the annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

ANALYSIS OF ASSETS AND LIABILITIES

1) Significant changes in composition of assets

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

Unit: Yuan

	31 December 2023		31 December 2022		Change
	Amount	Proportion to total asset	Amount	Proportion to total asset	
Cash on hand and at bank	158,481,484.94	5.98%	232,225,660.78	9.72%	-3.74%
Accounts receivable	717,577,606.43	27.07%	450,378,856.64	18.85%	8.22%
Financing receivables	199,966,034.43	7.54%	141,228,798.62	5.91%	1.63%
Inventories	478,208,228.06	18.04%	418,926,209.83	17.53%	0.51%
Investment property	181,278,705.33	6.84%	191,588,844.28	8.02%	-1.18%
Fixed assets	682,550,682.51	25.75%	637,752,505.44	26.69%	-0.94%
Short-term borrowings	147,820,497.81	5.58%	153,164,291.67	6.41%	-0.83%
Notes payable	191,745,893.38	7.23%	200,181,609.95	8.38%	-1.15%
Accounts payable	652,464,245.78	24.61%	492,851,770.30	20.63%	3.98%

2) Assets and liabilities measured at fair value

Unit: Yuan

Asset classification	Initial investment cost	Fair value change in the profit/loss during the year	Recognition in equity of the change of the cumulative fair value	Provision for impairment for the year	Amount of purchase during the Reporting Period	Amount of disposal during the Reporting Period	Change	At the end of the year
Financial assets								
1. Tradable financial assets (excluding derivative financial assets)	3,264,691.96	-421,304.08						2,843,387.88
2. Short-term bank wealth management products	117,128,913.61	155,605.91			338,000,000.00	347,874,474.57		107,410,044.95
3. Financing receivables	141,228,798.62				1,136,355,288.66	1,077,618,052.85		199,966,034.43
Sub-total of financial assets	261,622,404.19	-265,698.17			1,474,355,288.66	1,425,492,527.42		310,219,467.26
Financial liabilities								

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

Other than the "Assets with restrictions in ownership or use rights" set out on page 111 in the annual report, the Company did not have any other assets with restrictions in ownership or use rights.

4) Financial resources and capital structure

At the end of the Reporting Period, the amount of total loans and borrowings amounted to RMB207,540,000.00 (31 December 2022: RMB196,780,000.00). Total loans and borrowings increased by RMB10,760,000.00 when compared with the beginning of the year, mainly due to the increase in credit loans. There were no loans and borrowings of the Company shall be repaid after 2 years but within 5 years. Loans and borrowings at fixed interest rates amounted to RMB127,950,000.00 (31 December 2022: RMB103,000,000.00).

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. At the end of the Reporting Period, the Company's gearing ratio was 5.69% (31 December 2022: 2.92%).

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

ANALYSIS OF MAJOR CONTROLLED COMPANIES

Unit: Yuan

Company name	Company type/Kind of legal entity	Principal business	Registered capital
Hangzhou Shibao	Subsidiary/domestic enterprise	Manufacture of automotive components and parts	69,000,000
Hangzhou New Shibao	Subsidiary/domestic enterprise	Manufacture of automotive components and parts	60,000,000
Jilin Shibao	Subsidiary/domestic enterprise	Manufacture of automotive components and parts	41,000,000
Beijing Autonics	Subsidiary/domestic enterprise	Technology development of automotive components	60,000,000
Wuhu Sterling	Subsidiary/domestic enterprise	Manufacture of automotive components and parts	22,800,000

Company name	Total assets	Net assets	Revenue	Operating profit	Net profit
Hangzhou Shibao	925,792,913.04	435,629,895.73	946,085,516.05	43,315,018.08	44,418,246.87
Hangzhou New Shibao	457,001,689.73	21,451,354.41	453,020,111.79	28,283,900.41	27,872,322.15
Jilin Shibao	612,425,061.41	91,755,238.62	345,696,655.41	-21,540,898.63	-22,698,310.93
Beijing Autonics	134,923,721.11	58,324,053.41	86,740,615.39	11,979,358.31	11,535,475.29
Wuhu Sterling	296,141,928.52	-33,357,281.38	460,123,035.64	12,607,596.46	11,574,582.92

OUTLOOK INTO THE FUTURE DEVELOPMENT OF THE COMPANY

1) Industry landscape and trend

In 2023, the sales volume of China's automobile market was characterized by "turning positive after an unfavorable start and gradual improvement". At the beginning of the year, affected by factors such as the withdrawal of the automobile subsidy policy, the advance of the Spring Festival holiday and the advance overdraft of some consumption, the recovery of automobile consumption was relatively lagging behind. Driven by national and local policies, coupled with the continuation of local vehicles purchase promotion activities, market demand has been gradually released. The annual production and sales volume of vehicles exceeded 30,000,000 units, hitting a record high.

Looking ahead to 2024, China's macroeconomic expectations continue to pick up and improve, contributing to the stable growth of the automotive industry. With the continuous promotion of the national policies to promote consumption and stabilize growth, the implementation of a series of policies to promote the high-quality development of the new energy vehicle industry, including the continuation of vehicle purchase tax exemption policy, and the continued efforts to promote the development of new energy vehicles and construction of infrastructure in rural areas, will further stimulate market vitality and consumption potential. It is expected that China's automobile market will maintain a steady development trend in 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

2) Development strategy of the Company

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

3) Operating plan

In 2023, the Company's full series of automotive steering system products were electrified and intelligent. The sales volume of intelligent electric recirculation ball steering gears developed by the Company for new energy commercial vehicles increased significantly, and the electric steering column and intermediate shafts developed for new energy passenger vehicles achieved import substitution.

In 2024, the Company's self-developed Rack-assist Electric Power Steering system (R-EPS) will achieve mass production. The Company will promote the capacity construction of intelligent electric recirculation ball steering gears, intelligent electro-hydraulic recirculation ball steering gears, steering columns and intermediate shafts, and Rack-assist Electric Power Steering system (R-EPS) in an orderly manner to meet customer orders.

Looking forward, the Company will continue to focus on its main business, promote the marketization of the Company's electric and intelligent automotive steering system products, assisting in high-level autonomous driving of vehicles and facilitating the localization of automotive components.

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

4) Potential Risks

1. Risks relating to industry fluctuations

The success of automotive components and parts manufacturing industry that the Company is engaged in is subject to the development of downstream automobile industry which is exposed to greater influence by the macro-economic cycle and the national policies. Fluctuations in the automotive industry will have a greater impact on the Company's production and operations. If there are cyclical fluctuations in the macro economy or changes in national policies, there will be also corresponding fluctuations to the automotive components and parts manufacturing industry and will in turn subject the Company to the operation risk.

2. Risks relating to product quality

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

3. Risk relating to technical innovation

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

4. Risk relating to downward prices

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

5. Risk relating to price fluctuation of raw materials

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

6. Risks relating to overseas market expansion

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

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

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

8. Risk of accounts receivable recovery

At the end of the Reporting Period, the carrying amounts of accounts receivable were at relatively high level both in terms of the absolute amounts or as a percentage of operating income. With the fund-raising investment projects of the Company coming into operation, the scale of the Company's businesses will further expand. Therefore, the amount of accounts receivable is likely to further rise. Should there is any failure in collection of monies or financial crisis of our customers, the Company will be exposed to the risk of accounts receivable recovery.

MANAGEMENT DISCUSSION AND ANALYSIS

(English translation for reference only)

9. Higher risk of inventory size

At the end of the Reporting Period, the book value of inventories was at relatively high level both in terms of the absolute amounts or as a percentage of total non-current assets. In the future, if the changes in the market environment or increased competition will result in inventory buildup and impairment, the Company's operating results will be adversely affected. Meanwhile, a large inventory balance may affect capital chain tension and cash flow from operating activities of the Company, reducing the efficiency of capital operations and creating a certain amount of capital. If the Company fails to strengthen inventory management and accelerate inventory turnover, there will be operational risks arising from the decline in inventory turnover.

10. Risk relating to the stock market

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

MATERIAL ACQUISITION AND DISPOSAL

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

IMPORTANT EVENTS

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

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

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

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

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

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

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

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

As considered and approved at the 18th meeting of the seventh session of the Board of the Company held on 28 March 2024, the Company decided to distribute a cash dividend of RMB20,000,000.00 (tax inclusive) to all shareholders based on the share capital on the equity registration date when the 2023 annual equity distribution was implemented, i.e. approximately RMB0.25 (tax inclusive) per 10 shares based on the total share capital of 789,644,637 shares of the Company as of 27 March 2024. In this distribution, no capital reserve will be converted into share capital and no bonus shares will be issued. The Company is in the process of handling the matters in relation to the 2022 issuance of A shares to specific targets, and the actual amount of cash dividends to be distributed shall be calculated based on the total share capital as at the equity registration date when the equity distribution is implemented. If there is any change in the share capital of the Company during the period from the disclosure of the profit distribution plan to the implementation, the Company intends to adjust the distribution ratio accordingly based on the principle that the total distribution amount remains unchanged. The aforementioned profit distribution proposal is subject to approval at an annual general meeting.

FOREIGN CURRENCY EXPOSURE

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

CAPITAL COMMITMENTS

As at 31 December 2023, apart from the major commitments set out on page 146 in the annual report, the Group has no other major capital commitments.

CONTINGENT LIABILITIES

As at 31 December 2023, the Group has no material contingent liabilities.

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 1,940 employees as at 31 December 2023 (2022: 1,697). For the Reporting Period, total staff salaries and welfares costs amounted to RMB246,070,420.51 (2022: RMB210,230,126.66). The Group provided substantial remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC. Details on the standards for determining the remuneration of directors, supervisors and senior management of the Company are set out on page 28 in the annual report.

Our Company and its subsidiaries make contributions to municipal government retirement scheme for their respective qualified employees in the PRC. According to applicable PRC laws, both employers and employees are required to make contributions to the scheme at the specified rates pursuant to the rules of the scheme. The only obligation of our Company and its subsidiaries with respect to the scheme is to make the required contributions. The contributions payable under the scheme were properly accrued for the year ended 31 December 2023.

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(English translation for reference only)

EXECUTIVE DIRECTORS

Mr. Zhang Bao Yi (張寶義), aged 51, is a vice Chairman and the General Manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree. Since 12 June 2004, he has been appointed as a vice Chairman and since 28 December 2017, he has been appointed as the General Manager of the Company. From 12 June 2004 to 27 December 2017, Mr. Zhang was the deputy general manager of the Company. Mr. Zhang was granted the title of "Labour Model of Yiwu City" (義烏市勞動模範) in 2004. Mr. Zhang's current term is from 30 June 2021 to 30 June 2024. Mr. Zhang is also the chairman of Hangzhou New Shibao and Beijing Autonics; a director of Wuhu Sterling; and the general manager of Hangzhou Shibao. The relationship between Mr. Zhang Bao Yi and the Directors and controlling shareholder of the Company is disclosed in the following paragraph about Mr. Zhang Shi Quan.

Mr. Tang Hao Han (湯浩瀚), aged 56, is a vice Chairman and deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a doctor's degree. Since 12 June 2004, he has been appointed as vice Chairman and deputy general manager of the Company. Mr. Tang was awarded the "Outstanding Entrepreneur of Jilin Province" (吉林省優秀企業家), "Labour Model of Jilin Province" (吉林省勞動模範), "National Outstanding Youth Entrepreneur Leader" (全國青年興業領頭人), "Outstanding Entrepreneur of National Privately-Owned Technological Enterprises" (全國優秀民營科技企業家) and "National Labour Day Medal" (國家「五一」勞動獎章). Mr. Tang's current term is from 30 June 2021 to 30 June 2024. The relationship between Mr. Tang Hao Han and the Directors and controlling shareholder of the Company is disclosed in the following paragraph about Mr. Zhang Shi Quan.

Ms. Zhang Lan Jun (張蘭君), aged 49, is the finance Director of the Company. She is a Chinese national with no permanent residence abroad. She has a master's degree. Since 12 June 2004, she has been appointed as the finance Director of the Company. Ms. Zhang has over 20 years of experience in finance and accounting. Ms. Zhang's current term is from 30 June 2021 to 30 June 2024. Ms. Zhang is also a finance manager of Hangzhou Shibao. The relationship between Ms. Zhang Lan Jun and the Directors and controlling shareholder of the Company is disclosed in the following paragraph about Mr. Zhang Shi Quan.

Ms. Liu Xiao Ping (劉曉平), aged 53, is a Director, a deputy general manager and the Board secretary of the Company. She is a Chinese national with no permanent residence abroad. She has a master's degree. Since 13 May 2011, she has been appointed as the Board secretary of the Company. Since 27 December 2013, she has been appointed as a deputy general manager of the Company. Since 29 June 2018, she has been appointed as a Director of the Company. Between 2006 and 2011, she was the director of securities and investment department of the Company. Ms. Liu's current term is from 30 June 2021 to 30 June 2024.

NON-EXECUTIVE DIRECTORS

Mr. Zhang Shi Quan (張世權), aged 74, is the Chairman of the Company. He is a Chinese national with no permanent residence abroad. He is a senior economist. Since 12 June 2004, he has been appointed as the Chairman of the Company. From 12 June 2004 to 27 December 2017, Mr. Zhang was the General Manager of the Company. Mr. Zhang was awarded the title of "China Outstanding Private Entrepreneurs" (中國優秀民營企業家). He was also awarded "Top Ten Distinguished Persons for the Second Year for China's Industrial Economy" (第二屆中國工業經濟年度十大傑出人物) granted by the Office for Election of Distinguished Persons for China's Industrial Economy (中國工業經濟年度人物評選辦公室) in 2006. Mr. Zhang's current term is from 30 June 2021 to 30 June 2024. Mr. Zhang is also a director of Shibao Holding; an executive director of Hangzhou Shibao; the chairman of Wuhu Sterling and Jilin Shibao; and a director of Hangzhou New Shibao and Beijing Autonics. Mr. Zhang Shi Quan is the elder brother of Mr. Zhang Shi Zhong and is the father of Mr. Zhang Bao Yi and Ms. Zhang Lan Jun. Mr. Zhang Shi Quan is the father-in-law of Mr. Tang Hao Han. Shibao Holding is the controlling shareholder of the Company, of which Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Mr. Zhang Shi Zhong are the actual controllers.

Mr. Zhang Shi Zhong (張世忠), aged 63, is a Director of the Company. He is a Chinese national with no permanent residence abroad. Since 12 June 2004, he has been appointed as a Director of the Company. Mr. Zhang's current term is from 30 June 2021 to 30 June 2024. Mr. Zhang is also the chairman of Shibao Holding. The relationship between Mr. Zhang Shi Zhong and the Directors and controlling shareholder of the Company is disclosed in the foregoing paragraph about Mr. Zhang Shi Quan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gong Jun Jie (龔俊傑), aged 41, is an independent non-executive Director of the Company. He is a Chinese national with no permanent residency abroad and holds a master's degree. Mr. Gong graduated from Shanghai University of Finance and Economics with a major in accounting. Mr. Gong currently serves as the managing director of Shanghai Haiyue Private Fund Management Co. Ltd. (上海海越私募基金管理有限公司). Mr. Gong served as the vice president of the investment banking department of China Galaxy Securities Co., Ltd., the deputy director of the investment banking department of UBS Securities Co., Ltd., the managing director of the investment banking department of Caitong Securities Co., Ltd., the executive director of the investment banking department and joint director of the Shanghai Branch of Credit Suisse Founder Securities Limited, and the chief representative and managing director of Shanghai Representative Office of CMB International Capital Corporation Limited. Since 30 June 2020, Mr. Gong has been appointed as an independent non-executive Director of the Company. His current term is from 30 June 2021 to 30 June 2024.

Mr. Lin Yi (林逸), aged 71, is an independent non-executive Director of the Company. He is a Chinese national with no permanent residence abroad. He has a doctor's degree. Mr. Lin served successively as a professor of Jilin University of Technology, a professor of Beijing Institute of Technology and the deputy Chief Engineer of Beijing Automotive Group Co., Ltd. He then retired from Beijing Automotive Group Co., Ltd. in March 2015. From March 2013 to May 2018, Mr. Lin acted as the manager of China Automobile (Beijing) Automobile Lightweight Technology Research Institute Company Limited and was responsible for the promotion of automobile lightweight technology. From April 2015 to April 2018, Mr. Lin served as an independent director of Zhuzhou Times New Material Technology Co., Ltd. (listed on Shanghai Stock Exchange). Since September 2017, Mr. Lin has been the supervisor of Beijing Automotive Engineering Society. Since 29 June 2018, Mr. Lin has been appointed as an independent non-executive Director of the Company. His current term is from 30 June 2021 to 30 June 2024.

Mr. Tsui Chun Shing (徐晉誠), aged 42, is an independent non-executive Director of the Company, with Chinese nationality and being a permanent citizen of Hong Kong Special Administrative Region of the PRC, holds a bachelor's degree. Mr. Tsui graduated from the University of Melbourne, Australia majoring in Accounting and Finance and obtained the Bachelor of Commerce. Mr. Tsui is a member of the Hong Kong Institute of Certified Public Accountants and possesses rich experience in the areas of financial accounting and corporate financial management. Mr. Tsui has been a director of Vision Partners CPA Limited since December 2019. Mr. Tsui was an independent non-executive director of Echo International Holdings Group Limited (a listed company on the GEM of the Hong Kong Stock Exchange) from August 2019 to October 2020. Since 30 June 2021, Mr. Tsui has been appointed as an independent non-executive Director of the Company. His current term is from 30 June 2021 to 30 June 2024.

SUPERVISORS

Mr. Du Min (杜敏), aged 69, is the chairman of the Supervisory Committee of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree. Since 1 January 2022, he has been appointed as an assistant to general manager of Jilin Shibao. Since 2002, Mr. Du was an assistant to general manager of Siping Steering Gear Co., Ltd which was merged by Jilin Shibao at the end of 2018. He was then the financial controller of Jilin Shibao from 1 January 2019 to 31 December 2021. Since 1 June 2007, Mr. Du has been appointed as the chairman of the Supervisory Committee of the Company. His current term is from 30 June 2021 to 30 June 2024.

Mr. Yang Di Shan (楊迪山), aged 85, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is a senior engineer. Mr. Yang retired from FAW Group in 1998. Since 5 June 2009, Mr. Yang has been appointed as a Supervisor of the Company. His current term is from 30 June 2021 to 30 June 2024.

Mr. Wu Lang Ping (吳琅平), aged 61, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad. He has a college's degree. Since 6 March 2019, he has served as a general manager technical advisor of the Yiwu factory of the Company. Between 1993 and 2019, Mr. Wu was appointed as a manager of technical and process department of Hangzhou Shibao. Since 5 June 2009, he has been appointed as a Supervisor of the Company. His current term is from 30 June 2021 to 30 June 2024.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(English translation for reference only)

Mr. Zhang Zhi Long, aged 40, is a Supervisor of the Company. He is a Chinese national with no permanent residence abroad and holds a master's degree. Mr. Zhang graduated from Fudan University majoring in accounting. Mr. Zhang is currently 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). 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) and the sales director of the capital market department of Caitong Securities Co., Ltd. (財通證券股份有限公司). Mr. Zhang has been a Supervisor of the Company since 31 March 2023. His current term is from 31 March 2023 to 30 June 2024.

Ms. Feng Yan (馮燕), aged 59, is a Supervisor of the Company. She is a Chinese national with no permanent residence abroad. She has a master's degree and is an associate professor. She has served as a professor at the Zhejiang University of Finance and Economics since September 2000. Since 30 June 2015, Ms. Feng has been appointed as a Supervisor of the Company. Her current term is from 30 June 2021 to 30 June 2024.

SENIOR MANAGEMENT

Mr. Yu Zhong Chao (虞忠潮), aged 59, is a deputy general manager of the Company. He is a Chinese national with no permanent residence abroad. He has a bachelor's degree and is an engineer. Since 11 August 2006, he has been appointed as a deputy general manager of the Company.

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

Ms. Huen Lai Chun (禰麗珍), aged 58, is the company secretary of the Company. Since May 2009, she has been appointed as the company secretary and authorised representative of the Company under the Listing Rules of Hong Kong Stock Exchange. Ms. Huen is a fellow of The Association of Chartered Certified Accountants, and an associate of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute. Ms. Huen has over 20 years of professional experiences in company secretarial work, professional auditing, accounting and financial management.

The Board hereby presents the annual report and audited financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group has committed itself to the research and development of automotive steering gear products and mainly engaged in the develop, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The activities of its subsidiaries are set out on page 133 in the annual report. Analysis of operating segment is set out on page 146 in the annual report. Further discussion and analysis of businesses required under Schedule 5 to the Hong Kong Companies Ordinance, including the discussion on the major risks and uncertainties that the Group is subject to and the indication of likely development of the Group's business in the future, is set out in the "Management Discussion and Analysis" on pages 11 to 21 in the annual report. These discussions form part of this "Report of the Directors".

Important events after the Reporting Period

The Company has no important events after the Reporting Period.

Environmental policies and performance

The Company discharged its responsibility in environmental protection through technical and performance upgrade of its products, production process optimization, and enhancement in management standard. The Company's 2023 Environmental, Social and Governance Report (the "ESG Report") was published simultaneously with this annual report on the Company's website (www.zjshibao.com) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk). The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix C2 to the Listing Rules to explain and report to stakeholders the disclosure of the Group's efforts to fully implement the principles of sustainable development, the significant impact on environmental, social and governance, and the risk management and the effectiveness of the internal control systems adopted in 2023.

Green production

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

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

Improvement in production technology

Scientific and technological innovation is the eternal theme of the Company's development. The Company attaches great importance to the research and development of products. In order to guarantee the smooth progress of research and development of new products and technological innovation, the Company invested a lot in the research and development annually. In 2023, Company's annual research and development investment exceeds 6.50% of sales revenue. The Company has provincial-level technology centers, provincial-level research institutes and provincial post-doctoral workstations. It gathers a group of experts, outstanding technical talents and consultants in the field of automobile steering systems in China and is committed to the reserve and development of mainstream technology and smart steering system technology for existing automotive power steering systems. The Company recently launched electric power steering (EPS) system product, which is powered by rechargeable batteries and with dynamo as its power generating unit, is capable of operating separately from the automobile engine and its fuel consumption drawn from the engine can be close to none. With its electronic mode of control, the EPS system almost does not cause any pollution problem to the environment and achieves further decrease in fuel consumption.

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

REPORT OF THE DIRECTORS

(English translation for reference only)

Compliance with laws and regulations

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

Relationship with stakeholders

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

RESULTS

Results of the Group for the year ended 31 December 2023 are set out on page 53 in the annual report.

FIVE-YEAR FINANCIAL SUMMARY

Summary of the Group's results, assets and liabilities for the past five financial years are set out on page 9 in the annual report. The summary does not form part of the audited financial statements.

PROFIT DISTRIBUTION

The 2023 profit distribution proposal was approved at the 18th meeting of the seventh session of the Board of the Company held on 28 March 2024, the Board of the Company decided to distribute a cash dividend of RMB20,000,000.00 (tax inclusive) to all shareholders based on the share capital on the equity registration date when the 2023 annual equity distribution was implemented, i.e. approximately RMB0.25 (tax inclusive) per 10 shares based on the total share capital of 789,644,637 shares of the Company as of 27 March 2024. In this distribution, no capital reserve will be converted into share capital and no bonus shares will be issued. The Company is in the process of handling the matters in relation to the 2022 issuance of A shares to specific targets, and the actual amount of cash dividends to be distributed shall be calculated based on the total share capital as at the equity registration date when the equity distribution is implemented. If there is any change in the share capital of the Company during the period from the disclosure of the profit distribution plan to the implementation, the Company intends to adjust the distribution ratio accordingly based on the principle that the total distribution amount remains unchanged. The aforementioned profit distribution proposal is subject to approval at an annual general meeting.

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

SHARE CAPITAL

Details of changes of the Company's share capital during the Reporting Period are set out in note 5.(1)29 to the notes to the consolidated financial statements in the annual report.

EQUITY-LINKED AGREEMENTS

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

CONVERTIBLE DEBENTURES

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

RESERVES

Reserves of the Group and its changes during the Reporting Period prepared in accordance with China Accounting Standards for Business Enterprises are set out in the Consolidated Statement of Changes in Equity, and details of the relevant reserves are set out in notes 5.(1)30, 32 and 33 to the notes to the consolidated financial statements in the annual report.

DISTRIBUTABLE RESERVE

As at 31 December 2023, the Company's distributable reserve is RMB358,627,153.65 (2022: RMB282,745,271.10), and the relevant details are set out in note 5.(1)33 to the notes to the consolidated financial statements in the annual report.

PROPERTIES, PLANT AND EQUIPMENT

During the Reporting Period, details of changes of the Group's properties, plant and equipment are set out in note 5.(1)9 and 10 to the notes to the consolidated financial statements in the annual report.

BORROWINGS

Details of the Group's bank and other borrowings as at 31 December 2023 are set out in note 5.(1)17, 25 and 27 to the notes to the consolidated financial statements in the annual report.

DIRECTORS AND SUPERVISORS

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

Mr. Gong Jun Jie (龔俊傑)
Mr. Lin Yi (林逸)
Mr. Tsui Chun Shing (徐晉誠)

Supervisors

Mr. Du Min (杜敏)
Mr. Yang Di Shan (楊迪山)
Mr. Wu Lang Ping (吳琅平)
Mr. Shen Song Sheng (沈松生) (Passed away on 31 January 2023)
Ms. Feng Yan (馮燕)
Mr. Zhang Zhi Long (張治龍) (Appointed on 31 March 2023)

The terms of all current Directors and Supervisors were disclosed on page 34 in the "Composition of the Board and Board Practices" section of the Corporate Governance Report of this annual report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

The Company confirms that it has received annual letter of confirmation from each of the independent non-executive Directors regarding his independence based on the independence guidelines as set out in Rule 3.13 of the Listing Rules of Hong Kong Stock Exchange. The Company considers that they are independent parties.

REPORT OF THE DIRECTORS

(English translation for reference only)

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the remuneration of Directors, Supervisors and the five highest paid employees during the Reporting Period are set out on pages 143 to 145 in the annual report.

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

Remuneration by band	Number of person
HK\$0–HK\$1,000,000	1

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

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

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2023 are set out in note 11.(2) to the notes to the financial statements on pages 142 to 145 in the annual report. These related party transactions are not those discloseable connected transactions governed by Chapter 14A of the Listing Rules of Hong Kong Stock Exchange.

The Company has no transactions which are subject to the connected transaction disclosure requirements under the Listing Rules of Hong Kong Stock Exchange for the year ended 31 December 2023. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

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

As at 31 December 2023, the interests and short positions of each Director, Supervisor and Chief Executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be entered in the register pursuant to Section 352 of the SFO, or interests or short positions which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

(1) Long positions in A Shares of the Company

Name of Director	Capacity	Number of A Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Mr. Zhang Shi Quan	Beneficial owner	26,391,580	4.61%	3.34%
Mr. Zhang Shi Zhong	Beneficial owner	7,500	0.0013%	0.0009%

REPORT OF THE DIRECTORS

(English translation for reference only)

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

Name of Directors	Capacity	Contribution in the registered capital	Approximate percentage in the registered capital of Shibao Holding
Mr. Zhang Shi Quan	Beneficial owner	RMB5,000,000	10%
Mr. Zhang Bao Yi	Beneficial owner	RMB15,000,000	30%
Mr. Tang Hao Han	Beneficial owner	RMB12,500,000	25%
Ms. Zhang Lan Jun	Beneficial owner	RMB12,500,000	25%
Mr. Zhang Shi Zhong	Beneficial owner	RMB5,000,000	10%

Note: Shibao Holding holds 287,440,498 A Shares, representing 50.18% of A Shares in issue and 36.40% of the total issued share capital of the Company, and accordingly is an associated corporation of the Company.

Save as disclosed above, as at 31 December 2023, the Directors are not aware of any Director, Supervisor and chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Division 7 & 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to the Model Code to be notified to the Company and the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDER

As at 31 December 2023, so far as is known to the Directors of the Company, the following persons (other than the Directors, Supervisors and chief executive of the Company as disclosed above) had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in Shares of the Company

Name of Shareholder	Capacity	Number and class of Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued shares
Shibao Holding	Beneficial owner	287,440,498 A Shares	50.18%	36.40%

Save as disclosed above, as at 31 December 2023, the Directors are not aware of any other person (other than the Directors, Supervisors and chief executive of the Company as disclosed above) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

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

SHARE SCHEME

For the year ended 31 December 2023, the Company has not implemented any share scheme.

REPORT OF THE DIRECTORS

(English translation for reference only)

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

COMPETING INTERESTS

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

EMPLOYEES AND TRAINING PLANS

On 31 December 2023, the Group had approximately 1,940 full-time employees, including production, sales, technical, financial, administrative and other employees.

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

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

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

PERMITTED INDEMNITY PROVISION

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2023, purchases attributable to the Group's five largest suppliers and revenue attributable to the five largest customers represented 22.39% and 60.19% of the Group's total purchases and total revenue respectively. In addition, the largest supplier and the largest customer represented 9.55% and 23.76% of the Group's total purchases and revenue respectively.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Corporate Governance Report adopted by the Company is set out on pages 33 to 43 in the annual report.

AUDITORS

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

The financial statements for the year ended 31 December 2023 have been audited by Pan-China Certified Public Accountants LLP.

By order of the Board

Zhang Shi Quan

Chairman

Hangzhou, Zhejiang, the PRC
28 March 2024

REPORT OF THE SUPERVISORY COMMITTEE

(English translation for reference only)

To all Shareholders:

For the year 2023, the Supervisory Committee carefully discharged its duties in strict compliance with the related provisions of the Company Law of the PRC, the Stock Listing Rules of Shenzhen Stock Exchange, the Listing Rules of Hong Kong Stock Exchange, the Articles of Association and the Organization and Procedural Rules and Regulations for the Meetings of the Supervisory Committee.

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

The Supervisory Committee is of the view that all members of the Board and other senior management of the Company have honestly and diligently discharged their duties, strived to maintain the interests of Shareholders and made great efforts to the operating results of the Company in 2023. No violation of laws and regulations of the PRC or the place of listing and the Articles of Association of the Company have been discovered during the discharge of their duties. The Supervisory Committee has no dissenting view over the supervisory matters during the Reporting Period, the Supervisory Committee is optimistic about the prospect of the Company.

Having reviewed the financial statements for the year ended 31 December 2023 prepared by Pan-China Certified Public Accountants LLP based on China Accounting Standards for Business Enterprises, the Supervisory Committee is of the view that the financial statements provide an objective, true and full view of the financial position and operating results of the Company.

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

By order of the Supervisory Committee

Du Min

Chairman of the Supervisory Committee

Hangzhou, Zhejiang, the PRC

28 March 2024

CORPORATE GOVERNANCE PRACTICES

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interest of all of its stakeholders. The Company's commitment to the highest standards of corporate governance is driven by the Board who, led by the Chairman, assume overall responsibility for the governance of the Company, taking into account of the interests of the Company's stakeholders, the development of its business, and the changing external environment. This report describes how the principles of the CG Code have applied during the year ended 31 December 2023 under different aspects.

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

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

MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

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

COMPOSITION OF THE BOARD AND BOARD PRACTICES

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

CORPORATE GOVERNANCE REPORT

(English translation for reference only)

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

	Attendance of meetings						
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment and Strategy Committee	ESG Committee	General Meeting
Number of meetings	6	4	1	1	1	1	4
Executive Directors							
Mr. Zhang Bao Yi	6/6				1/1	1/1	4/4
Mr. Tang Hao Han	6/6				1/1	1/1	4/4
Ms. Zhang Lan Jun	6/6			1/1			4/4
Ms. Liu Xiao Ping	6/6						4/4
Non-executive Directors							
Mr. Zhang Shi Quan	6/6				1/1	1/1	4/4
Mr. Zhang Shi Zhong	6/6	4/4	1/1				4/4
Independent non-executive Directors							
Mr. Gong Jun Jie	6/6						4/4
Mr. Lin Yi	6/6	4/4	1/1	1/1			4/4
Mr. Tsui Chun Shing	6/6	4/4	1/1	1/1			4/4

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

The terms of all current Directors and Supervisors are from 30 June 2021 to 30 June 2024.

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

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

Mr. Zhang Shi Zhong (a non-executive Director) is the younger brother of Mr. Zhang Shi Quan (a non-executive Director and Chairman). Mr. Zhang Bao Yi (an executive Director and general manager) is the son of Mr. Zhang Shi Quan. Ms. Zhang Lan Jun (an executive Director and Finance Director) is the daughter of Mr. Zhang Shi Quan. Mr. Tang Hao Han (an executive Director and deputy general manager) is the son-in-law of Mr. Zhang Shi Quan. Shibao Holding is the Controlling Shareholder of the Company, and Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Mr. Zhang Shi Zhong are the effective controllers of the Company, the relevant interests of which are disclosed on page 29 in the "Long positions in the registered capital of the Ultimate Holding Company, Shibao Holding, an associated corporation of the Company" section of the Report of the Directors of this annual report. Saved as the above and disclosed in "Directors, Supervisors and Senior Management" section of this annual report, there is no other financial, business, family or material relationship between the members of the Board.

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

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

CHAIRMAN AND GENERAL MANAGER

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

FUNCTIONS OF CORPORATE GOVERNANCE

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

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

CORPORATE STRATEGY, BUSINESS MODEL AND CULTURE

Our mission is to improve the safety and comfort of driving. Guided by this mission, the Group is committed to providing advanced active steering solutions for autonomous vehicles, integrating economic growth, environmental protection and social responsibility into its business strategy, designing, manufacturing and providing customers with technologically advanced intelligent steering systems and key component products, with an aim to bring sustainable value to stakeholders and the community. Our corporate culture is critical to our mission to achieve sustainable growth. Below are core culture principles that guide employee behavior and ensure alignment of our mission, values and business strategy with these principles.

Culture of Developing the Market with Quality

We regard "Developing the Market with Quality" as our most important culture. Without quality products, we will not be able to establish long-term relationships with well-known customers and create sustainable value for our stakeholders. We continuously optimize our quality control system and implement strict quality control measures in all aspects of the production process to ensure that our products always meet the requirements of our customers.

CORPORATE GOVERNANCE REPORT

(English translation for reference only)

Culture of Pragmatism and Innovation

Pragmatism and innovation is the Group's business philosophy and the basic code of conduct for employees to cooperate and conduct business with customers and suppliers. We have formulated human resources management policies to create a friendly working environment that encourages mutual support and innovation. We have established a code of conduct and anti-corruption policies to provide guidance to our employees and have mandatory and regular training sessions on such policies.

Culture of Environmental Protection

We recognize the importance of environmental protection and have adopted stringent environmental protection measures to not only ensure our compliance with the prevailing environmental protection laws and regulations, but also strive to make more contributions to the protection of the environment and resources of the planet.

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

The internal audit department was set up by the Company in 2007. The principal duties of the internal audit department are, amongst others:

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

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

CORPORATE GOVERNANCE REPORT

(English translation for reference only)

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

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

During the Reporting Period, our internal audit department had conducted quarterly reviews on the internal control of the Group throughout 2023 and submitted quarterly reports on internal audit. The reviews cover all the material aspects of monitoring, including financial control, operation control, compliance control and risk management functions, and the adequacy of resources, qualifications and experience of staff of the Company’s accounting, financial reporting function and ESG performance and reporting, and their training programmes and budget.

In addition, the Company engaged Pan-China Certified Public Accountants LLP to be the Company’s internal control auditor during the Reporting Period. Pan-China Certified Public Accountants LLP is of the view that the Company has maintained effective internal control of financial report in all material aspects as at 31 December 2023 in accordance with the Basic Standards for Internal Control of Companies and relevant regulations.

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

HANDLING OF INSIDE INFORMATION

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

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

REMUNERATION COMMITTEE

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

The Remuneration Committee consists of three members, namely, Mr. Tsui Chun Shing (Chairman of the Remuneration Committee) and Mr. Lin Yi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). During the Reporting Period, the Remuneration Committee held one meeting to consider and approve the proposal of the remuneration of the Directors, Supervisors and senior management for the year 2024 of the Company, and submit proposals to the Board.

NOMINATION COMMITTEE

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

The Nomination Committee consists of three members, namely Mr. Lin Yi (Chairman of the Nomination Committee) and Mr. Tsui Chun Shing (both are independent non-executive Directors), and Ms. Zhang Lan Jun (executive Director). During the Reporting Period, the Nomination Committee held one meeting to consider and approve the proposal on the structure, size and composition of the Board, proposal of the measurable objectives of the Board diversity policy and the independence of the independent non-executive Directors.

BOARD DIVERSITY POLICY

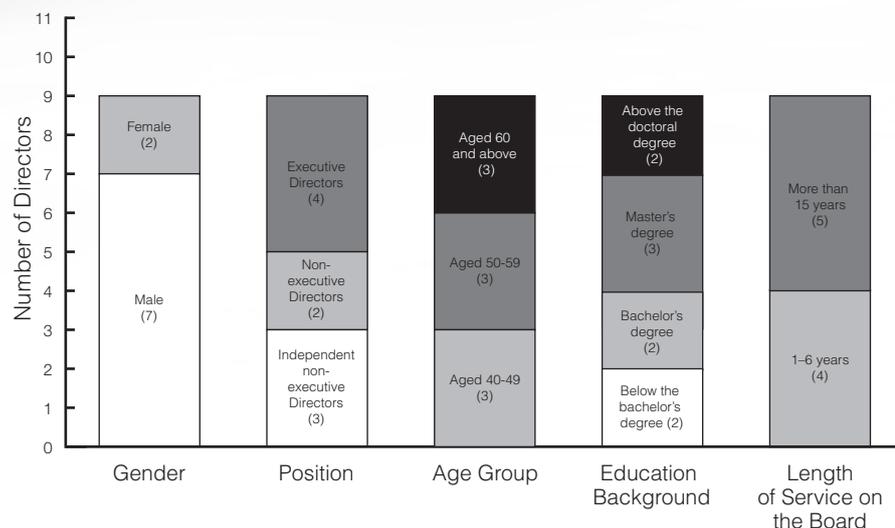
On 21 December 2018, the Nomination Committee proposed to the Board amendments to the Board Diversity Policy, which were approved by the Board. The policy summary is as follows:

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

CORPORATE GOVERNANCE REPORT

(English translation for reference only)

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



The Board has reviewed the implementation and effectiveness of the Company's Board Diversity Policy and considered the Company's Board Diversity Policy to be effective. The Company did not set up any plans or measurable goals in respect of the gender ratio of all employees (including senior management). For the employee's gender ratio of the Company during the Reporting Period, please refer to the 2023 ESG Report of the Company.

MEASURABLE OBJECTIVES OF THE BOARD DIVERSITY POLICY

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

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

During the year ended 31 December 2023, the Board achieved the measurable objectives of the Board diversity policy.

AUDIT COMMITTEE

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

The Audit Committee has three members, namely Mr. Tsui Chun Shing (Chairman of the Audit Committee) and Mr. Lin Yi (both are independent non-executive Directors), and Mr. Zhang Shi Zhong (non-executive Director). During the Reporting Period, the Audit Committee held four meetings to review and approve, among others, the annual audit report for the year 2022, the internal control report for the year 2022, and the unaudited financial statements of first quarter, first half and third quarter of 2023, the internal audit report and internal audit working plan. The Audit Committee reviewed and approved the resolution on the re-appointment of Pan-China Certified Public Accountants LLP as the auditors of the Company for the year 2023, and submitted to the Board for review.

The Company's annual audit report for the year ended 31 December 2023 has been reviewed by the Audit Committee.

SUPERVISORY COMMITTEE

The Supervisory Committee is established in compliance with the Company Law of the PRC. As of 31 December 2023, the Supervisory Committee of the Company comprises five members, namely Mr. Du Min (Chairman of the Supervisory Committee), Mr. Yang Di Shan, Mr. Wu Lang Ping, Ms. Feng Yan, Mr. Shen Song Sheng (passed away on 31 January 2023) and Mr. Zhang Zhi Long (appointed on 31 March 2023). Each of the Supervisors have made their best efforts to discharge their duties, and effectively supervise whether the financial matters of the Company are in compliance with the laws and regulatory requirements, and supervise the Directors and senior management in performing their duties.

INVESTMENT AND STRATEGY COMMITTEE

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

On 29 December 2021, the Company established the ESG Committee and formulated the rules of procedure for the committee. The main responsibility of the ESG Committee is to provide advice and assistance to the Board on the Company's environmental, social and governance management issues including governance, policies, execution, performance and reporting in accordance with the aspects as stipulated in the Environmental, Social and Governance Reporting Guide as set out in Appendix C3 to the Listing Rules.

The ESG Committee comprises three members, namely Mr. Zhang Bao Yi (Chairman of the ESG Committee) and Mr. Tang Hao Han (both are executive Directors), and Mr. Zhang Shi Quan (non-executive Director). During the Reporting Period, the ESG Committee held one meeting to review the 2022 ESG report.

CORPORATE GOVERNANCE REPORT

(English translation for reference only)

REMUNERATION OF THE AUDITORS

For the year ended 31 December 2023, remuneration received by Pan-China Certified Public Accountants LLP in respect of their audit services and non-audit services are as follows:

	RMB
Statutory audit services	724,500
Non-statutory audit services – internal audit	200,000
Total	<u>924,500</u>

COMPANY SECRETARY

The Company engages an external service provider as its company secretary. Ms. Liu Xiao Ping, an executive Director and the Board Secretary of the Company, is the contact person of the external service provider. The biographies of them are set out on pages 22 and 24 in the “Directors, Supervisors and Senior Management” section of this annual report respectively. During the Reporting Period, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

RESPONSIBILITY OF DIRECTORS AND AUDITORS ON THE ACCOUNTS

The Board confirms its responsibilities on the preparation of the Group’s financial statements. The Directors shall ensure that the Group’s financial statements have been prepared in accordance with the statutory requirements and the applicable accounting standards. Statements of the Company’s auditors in respect of their reporting responsibilities on the Group’s financial statements are set out on pages 47 and 48 in the Auditors’ Report in the annual report.

SHAREHOLDERS’ RIGHTS

Procedures of convening general meetings by Shareholders

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

Procedures of sending enquiries to the Board

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

Procedures of raising proposal in the general meeting

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

ARTICLES OF ASSOCIATION

Pursuant to the Listing Rules, the Guidelines for the Articles of Association of Listed Companies (revised in 2022) (CSRC Announcement [2022] No. 2) issued by the CSRC on 5 January 2022, and other relevant laws and regulations, and by taking into account the actual business needs of the Company, the Company proposed to make amendments to the Articles of Association. The proposed amendments were approved at the extraordinary general meeting of the Company held on 2 December 2022.

SHAREHOLDERS' COMMUNICATION POLICY

The purpose of the Company's Shareholders' Communication Policy is to ensure that Shareholders and potential investors have access to comprehensive, consistent and brief corporate information (including operating results, strategic planning, corporate governance and important matters). The main forms to communicate corporate information to Shareholders and potential investors include financial report, general meeting, the Company's website. Procedures for Shareholders and other stakeholders to make enquiries to the Board, please refer to "Shareholders' Rights" section of this report.

The Company regularly met with analysts and attended various forums, so as to strengthen relationship with the investment sector. The Company's disclosure of information to the public shall comply with the Company's Information Disclosure Management System.

The Company has undertaken to maintain the highest level of transparency, and to apply the policy of making public and timely disclosures of relevant information to Shareholders on the websites of the Company and the Hong Kong Stock Exchange. The Board has reviewed the Shareholder and investor engagement and communication activities conducted in 2023 and is satisfied with the implementation and effectiveness of the Shareholders' Communication Policy.

AUDITORS' REPORT

(English translation for reference only)



Pan-China Audit [2024] No. 626

TO THE SHAREHOLDERS OF ZHEJIANG SHIBAO COMPANY LIMITED

1. OPINION

We have audited the accompanying financial statements of Zhejiang Shibao Company Limited (hereinafter “Zhejiang Shibao Company”), which comprise the consolidated and parent company’s balance sheet as at 31 December 2023, the consolidated and parent company’s income statements, the consolidated and parent company’s statements of cash flows, the consolidated and parent company statements of changes in equity for the year then ended, and the notes to the financial statements.

In our opinion, the attached financial statements present fairly, in all material aspects, the consolidated and parent company’s financial position of Zhejiang Shibao Company as at 31 December 2023 and the consolidated and parent company’s financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

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

3. KEY AUDIT MATTERS

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

(1) Impairment of accounts receivable

1. Description of the matter

For relevant information disclosure, see Notes 3(11) and 5(1)3 to the financial statements.

As of 31 December 2023, the balance of the accounts receivable of Zhejiang Shibao Company, the bad debt provision for them and their carrying amount were RMB749,076,154.69, RMB31,498,548.26 and RMB717,577,606.43 respectively.

The management of Zhejiang Shibao Company (hereinafter referred to as the "Management") made impairment provisions in an amount equal to the lifetime expected credit loss (ECL) by reference to the individual credit risk characteristics of receivables, either individually or collectively.

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

2. *Audit response*

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

- (1) We sought to understand the key internal control system in relation to the impairment of accounts receivable, assessed the design of these control to determine whether such control measures have been implemented and tested the effectiveness of such relevant internal control;
- (2) We checked the results of the Management's estimation of bad debt provision in previous years or the Management's subsequent re-estimation;
- (3) We checked the relevant factors considered by the Management and the objective evidence used by the Management in assessing the credit risks of the accounts receivable, so as to evaluate the appropriateness of the credit risk characteristics of individual accounts receivable as identified by the Management;
- (4) For accounts receivable for which the ECLs are measured on an individual basis, we checked the cash flow projection made by the Management, so as to evaluate the appropriateness of the key assumptions and appropriateness, relevance and reliability of data used in the projection, and obtained and checked to the external evidence;
- (5) For accounts receivable for which the ECLs are measured on a collective basis, we evaluated the reasonableness of the grouping made by the Management based on credit risk characteristics, evaluated the reasonableness of the expected credit loss rate of the accounts receivable determined by the Management (including appropriateness of significant assumptions used and appropriateness, relevance and reliability of data), and tested the accuracy of the calculation for bad debt provisions;
- (6) We evaluated the reasonableness of the Management's provision for bad debt based on the account receivables confirmation and the subsequent collection;
- (7) We have checked whether information on the impairment of accounts receivable was presented in the financial statements.

AUDITORS' REPORT

(English translation for reference only)

(2) Net realizable value of inventory

1. *Description of the matter*

For relevant information disclosure, see Notes 3(12) and 5(1)7 to the financial statements.

As of 31 December 2023, the balance of inventory, inventory obsolescence provisions and the carrying amount of inventory of Zhejiang Shibao Company were RMB514,723,465.75, RMB36,515,237.69 and RMB478,208,228.06 respectively.

The inventories were stated at the lower of cost and net realizable value. The Management determined the net realizable value at the estimated sales price less estimated costs to be incurred upon completion, costs necessary to make the sale and relevant taxes. We identified the net realizable value of inventory as a key audit matter due to the significant amount of the inventories and the involvement of significant judgment by the Management in determining the net realizable value of the inventory.

2. *Audit response*

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

- (1) We sought to understand the key internal control system in relation to the net realizable value of inventory, assessed the design of these control to determine whether such control measures have been implemented and tested the effectiveness of such relevant internal control;
- (2) We checked the results of the Management's estimation of net realizable value of inventory in previous years or the Management's subsequent re-estimation;
- (3) We selected projects to evaluate the reasonableness of the estimated sales prices of inventories, and checked whether the estimated sales price is consistent with the contract sales price, market sales price, historical data, etc.;
- (4) We evaluated the reasonableness of the Management's estimates on the costs to be incurred upon completion, costs necessary to make the sale and relevant taxes;
- (5) We tested the accuracy of calculation of the net realizable value of the inventory made by the Management;
- (6) We evaluated the reasonableness of the estimates made by the Management on the net realizable value of inventories based on the inventory monitoring to identify whether there are conditions such as long inventory age, model obsolescence, decline in production volume, fluctuations in production costs or selling prices, changes in technology or market demand;
- (7) We have checked whether information on the net realizable value of the inventory was presented in the financial statements.

4. OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

AUDITORS' REPORT

(English translation for reference only)

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

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

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

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

Pan-China Certified Public Accountants (LLP)
China, Hangzhou

Chinese Certified Public Accountant: Xu Haihong
(Partner-in-charge of project)
Chinese Certified Public Accountant: Weng Zongjiang

28 March 2024

CONSOLIDATED BALANCE SHEET

31 December 2023 | (RMB Yuan) | (English translation for reference only)

Item	31 December 2023	31 December 2022
Current assets:		
Cash on hand and at bank	158,481,484.94	232,225,660.78
Financial assets held for trading	110,253,432.83	120,393,605.57
Accounts receivable	717,577,606.43	450,378,856.64
Financing receivables	199,966,034.43	141,228,798.62
Prepayments	8,861,720.75	13,612,688.61
Other receivables	3,499,432.17	4,271,142.19
Inventories	478,208,228.06	418,926,209.83
Other current assets	5,310,713.41	19,121,139.69
Total current assets	1,682,158,653.02	1,400,158,101.93
Non-current assets:		
Investment property	181,278,705.33	191,588,844.28
Fixed assets	682,550,682.51	637,752,505.44
Construction in progress	29,028,326.22	73,883,359.35
Intangible assets	59,264,173.40	56,434,022.38
Deferred income tax assets	11,828,529.38	14,620,602.72
Other non-current assets	4,569,777.98	15,045,732.28
Total non-current assets	968,520,194.82	989,325,066.45
Total assets	2,650,678,847.84	2,389,483,168.38
Current liabilities:		
Short-term borrowings	147,820,497.81	153,164,291.67
Notes payable	191,745,893.38	200,181,609.95
Accounts payable	652,464,245.78	492,851,770.30
Receipts in advance	9,292,437.66	10,369,809.24
Contract liabilities	18,649,684.46	6,685,985.59
Staff costs payable	28,730,734.85	24,981,564.62
Tax payable	7,706,796.87	10,511,638.31
Other payables	2,834,268.68	3,336,507.84
Non-current liabilities due within one year	25,084,088.74	
Other current liabilities	38,905,444.96	36,783,309.21
Total current liabilities	1,123,234,093.19	938,866,486.73

CONSOLIDATED BALANCE SHEET

31 December 2023 | (RMB Yuan) | (English translation for reference only)

Item	31 December 2023	31 December 2022
Non-current liabilities:		
Long-term borrowings	34,836,594.99	43,816,783.33
Deferred income	32,680,455.22	28,083,266.73
Deferred income tax liabilities	1,964,100.71	5,618,659.73
Total non-current liabilities	69,481,150.92	77,518,709.79
Total liabilities	1,192,715,244.11	1,016,385,196.52
Shareholders' Equity:		
Share capital	789,644,637.00	789,644,637.00
Capital reserve	182,334,093.78	182,334,093.78
Surplus reserve	139,259,335.05	137,936,874.81
Retained earnings	358,627,153.65	282,745,271.10
Equity attributable to equity holders of the parent	1,469,865,219.48	1,392,660,876.69
Minority interests	-11,901,615.75	-19,562,904.83
Total equity	1,457,963,603.73	1,373,097,971.86
Total liabilities and equity	2,650,678,847.84	2,389,483,168.38

Legal representative
Zhang Shi Quan

Chief Financial Officer
Zhang Lan Jun

Head of Finance Section
Li Gen Mei

BALANCE SHEET OF THE PARENT COMPANY

31 December 2023 | (RMB Yuan) | (English translation for reference only)

Item	31 December 2023	31 December 2022
Current assets:		
Cash on hand and at bank	21,260,690.81	34,030,764.20
Accounts receivable	159,123,427.44	127,392,441.86
Financing receivables	44,271,870.23	35,965,298.72
Prepayments	916,749.99	1,358,837.64
Other receivables	397,150,579.64	426,438,596.81
Inventories	76,633,089.58	58,928,752.39
Other current assets	2,104,027.55	664,563.08
Total current assets	701,460,435.24	684,779,254.70
Non-current assets:		
Long-term receivables	248,000,000.00	248,000,000.00
Long-term equity investments	235,159,214.87	185,159,214.87
Investment property	169,342,132.54	177,407,122.51
Fixed assets	81,212,118.00	82,785,984.37
Construction in progress	216,490.57	1,552,120.00
Intangible assets	7,640,212.44	7,269,007.86
Deferred income tax assets	325,551.85	88,086.69
Total non-current assets	741,895,720.27	702,261,536.30
Total Assets	1,443,356,155.51	1,387,040,791.00
Current liabilities:		
Short-term borrowings	103,082,006.14	103,115,402.78
Notes payable	47,185,870.33	41,060,607.69
Accounts payable	83,736,601.50	68,854,540.75
Receipts in advance	9,221,009.09	10,298,380.67
Staff cost payable	2,346,541.88	2,287,480.97
Tax payable	4,035,634.31	4,619,355.02
Other payables	1,817,761.82	1,663,425.10
Non-current liabilities due within one year	25,084,088.74	
Other current liabilities	924,528.32	924,528.34
Total current liabilities	277,434,042.13	232,823,721.32

BALANCE SHEET OF THE PARENT COMPANY

31 December 2023 | (RMB Yuan) | (English translation for reference only)

Item	31 December 2023	31 December 2022
Non-current liabilities:		
Long-term borrowings	34,836,594.99	35,016,783.33
Deferred income	5,771,755.50	7,111,125.90
Total non-current liabilities	40,608,350.49	42,127,909.23
Total liabilities	318,042,392.62	274,951,630.55
Shareholders' Equity:		
Share capital	789,644,637.00	789,644,637.00
Capital reserve	187,767,058.72	187,767,058.72
Surplus reserve	78,256,358.01	76,933,897.77
Retained earnings	69,645,709.16	57,743,566.96
Total Shareholders' Equity	1,125,313,762.89	1,112,089,160.45
Total Liabilities and Shareholders' Equity	1,443,356,155.51	1,387,040,791.00

Legal representative
Zhang Shi Quan

Chief Financial Officer
Zhang Lan Jun

Head of Finance Section
Li Gen Mei

CONSOLIDATED INCOME STATEMENT

For the year 2023 | (RMB Yuan) | (English translation for reference only)

Item	2023	2022
1. Total Revenue	1,819,442,221.52	1,386,395,566.38
Include: Revenue	1,819,442,221.52	1,386,395,566.38
2. Total operating costs	1,753,706,339.00	1,370,967,136.95
Include: Cost of sales	1,444,262,099.48	1,117,392,294.25
Business taxes and surcharges	12,718,136.06	9,188,313.26
Selling expenses	63,149,039.78	52,043,482.77
General and administrative expenses	109,307,880.14	87,822,707.53
Research and development expenses	118,196,951.05	99,668,577.85
Financial expenses	6,072,232.49	4,851,761.29
Include: Interest expenses	7,273,803.75	5,346,190.55
Interest income	1,714,729.11	949,325.73
Add: Other gains	30,291,802.93	18,987,378.83
Investment gains (“-” for loss)	1,485,955.85	1,798,850.81
Gains from fair value change (“-” for loss)	-265,698.17	-1,141,664.33
Credit impairment losses (“-” for loss)	2,760,529.44	-1,589,469.25
Asset impairment losses (“-” for loss)	-12,899,491.01	-19,975,166.26
Gains from disposal of assets (“-” for loss)	-473,679.45	5,113,339.09
3. Operating profit (“-” for loss)	86,635,302.11	18,621,698.32
Add: Non-operating income	283,414.71	382,612.09
Less: Non-operating expenses	2,915,570.63	371,303.70
4. Total profit (“-” for total loss)	84,003,146.19	18,633,006.71
Less: Income tax expenses	-862,485.68	369,207.41
5. Net profit (“-” for net loss)	84,865,631.87	18,263,799.30
(1) Classification by business continuity		
1. Net profit from continuing operations (“-” for net loss)	84,865,631.87	18,263,799.30
(2) Classification by ownership		
1. Net profit attributable to equity holders of the parent	77,204,342.79	15,823,592.47
2. Minority interests	7,661,289.08	2,440,206.83
6. Other comprehensive income, net of tax		
7. Total comprehensive income	84,865,631.87	18,263,799.30
Total comprehensive income attributable to equity holders of the parent	77,204,342.79	15,823,592.47
Total comprehensive income attributable to minority shareholders	7,661,289.08	2,440,206.83
8. Earnings per share:		
(1) Basic earnings per share	0.10	0.02
(2) Diluted earnings per share	0.10	0.02

Legal representative
Zhang Shi Quan

Chief Financial Officer
Zhang Lan Jun

Head of Finance Section
Li Gen Mei

INCOME STATEMENT OF THE PARENT COMPANY

For the year 2023 | (RMB Yuan) | (English translation for reference only)

Item	2023	2022
1. Revenue	306,170,960.57	223,573,906.02
Less: Cost of sales	260,217,632.50	185,820,020.61
Business taxes and surcharges	3,738,054.33	1,829,092.56
Selling expenses	768,697.19	27,732.04
General and administrative expenses	23,094,800.03	15,922,143.43
Research and development expenses	10,588,730.49	8,548,956.26
Financial expenses	5,848,833.85	4,543,786.24
Include: Interest expenses	5,840,183.18	4,533,042.96
Interest income	46,379.65	58,312.49
Add: Other gains	6,369,777.91	2,026,406.34
Investment gains (“-” for loss)	6,624,161.91	5,378,620.96
Credit impairment losses (“-” for loss)	5,290.21	-1,555.62
Asset impairment losses (“-” for loss)	-1,588,391.25	
Gains from disposal of assets (“-” for loss)	-55,768.36	74,223.55
2. Operating profit (“-” for loss)	13,269,282.60	14,359,870.11
Add: Non-operating income	4.74	8,318.10
Less: Non-operating expenses	282,150.06	90,102.47
3. Total profit (“-” for total loss)	12,987,137.28	14,278,085.74
Less: Income tax expenses	-237,465.16	73,833.65
4. Net profit (“-” for net loss)	13,224,602.44	14,204,252.09
(1) Net profit from continuing operations (“-” for net loss)	13,224,602.44	14,204,252.09
5. Other comprehensive income, net of tax		
6. Total comprehensive income	13,224,602.44	14,204,252.09
7. Earnings per share		

Legal representative
Zhang Shi Quan

Chief Financial Officer
Zhang Lan Jun

Head of Finance Section
Li Gen Mei

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

Item	2023	2022
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	809,830,198.74	889,541,165.29
Return of taxes and levies	7,062,768.15	15,379,436.56
Cash received relating to other operating activities	107,271,693.54	83,282,158.81
Sub-total of cash inflow	924,164,660.43	988,202,760.66
Cash paid for goods and services	525,086,338.57	500,735,394.32
Cash paid to and on behalf of employees	240,412,715.70	205,788,137.25
Payment of taxes and levies	40,412,103.32	30,943,067.76
Cash paid relating to other operating activities	115,056,787.37	139,864,880.52
Sub-total of cash outflow	920,967,944.96	877,331,479.85
Net cash flows from operating activities	3,196,715.47	110,871,280.81
2. Cash flows from investing activities:		
Cash received from investments	346,160,000.00	232,064,560.33
Cash received from investment gains	4,027,666.11	1,523,975.01
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	960,513.16	9,059,739.83
Sub-total of cash inflow	351,148,179.27	242,648,275.17
Cash paid to acquire fixed assets, intangible assets and other long-term assets	63,565,992.13	77,333,006.40
Cash paid for investments	338,000,000.00	282,460,000.00
Sub-total of cash outflow	401,565,992.13	359,793,006.40
Net cash flows from investing activities	-50,417,812.86	-117,144,731.23
3. Cash flows from financing activities:		
Cash received from borrowings	172,700,000.00	225,000,000.00
Sub-total of cash inflow	172,700,000.00	225,000,000.00
Cash paid for debt repayments	153,140,000.00	200,000,000.00
Cash paid for distribution of dividends, profit or interest expenses	7,273,697.21	4,881,041.73
Cash paid relating to other financing activities	1,126,406.36	627,340.68
Sub-total of cash outflow	161,540,103.57	205,508,382.41
Net cash flows from financing activities	11,159,896.43	19,491,617.59
4. Effect of changes in foreign exchange rate on cash and cash equivalents	248,964.76	-187,379.32
5. Net increase in cash and cash equivalents	-35,812,236.20	13,030,787.85
Add: opening balance of cash and cash equivalents	155,644,045.68	142,613,257.83
6. Closing balance of cash and cash equivalents	119,831,809.48	155,644,045.68

Legal representative
Zhang Shi Quan

Chief Financial Officer
Zhang Lan Jun

Head of Finance Section
Li Gen Mei

STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

For the year 2023 | (RMB Yuan) | (English translation for reference only)

Item	2023	2022
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	194,163,257.46	75,642,650.68
Return of taxes and levies	31,144.22	2,610,994.24
Cash received relating to other operating activities	30,574,686.17	28,948,598.89
Sub-total of cash inflow	224,769,087.85	107,202,243.81
Cash paid for goods and services	182,151,951.56	72,217,781.57
Cash paid to and on behalf of employees	23,184,083.34	18,863,138.51
Payment of taxes and levies	9,535,639.37	3,222,399.66
Cash paid relating to other operating activities	19,030,321.27	15,839,915.86
Sub-total of cash outflow	233,901,995.54	110,143,235.60
Net cash flows from operating activities	-9,132,907.69	-2,940,991.79
2. Cash flows from investing activities:		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	208,000.00	1,416,144.06
Cash received relating to other investing activities	9,823,474.99	23,139,599.37
Sub-total of cash inflow	10,031,474.99	24,555,743.43
Cash paid to acquire fixed assets, intangible assets and other long-term assets	4,355,578.39	5,428,525.00
Cash paid relating to other investing activities	25,000,000.00	36,000,000.00
Sub-total of cash outflow	29,355,578.39	41,428,525.00
Net cash flows from investing activities	-19,324,103.40	-16,872,781.57
3. Cash flows from financing activities:		
Cash received from borrowings	128,000,000.00	145,000,000.00
Sub-total of cash inflow	128,000,000.00	145,000,000.00
Cash paid for debt repayments	103,140,000.00	170,000,000.00
Cash paid for distribution of dividends, profit or interest expenses	5,829,679.42	4,517,822.29
Cash paid relating to other financing activities	1,126,406.36	627,340.68
Sub-total of cash outflow	110,096,085.78	175,145,162.97
Net cash flows from financing activities	17,903,914.22	-30,145,162.97
4. Effect of changes in foreign exchange rate on cash and cash equivalents	-633.20	-10,092.18
5. Net increase in cash and cash equivalents	-10,553,730.07	-49,969,028.51
Add: opening balance of cash and cash equivalents	16,317,774.62	66,286,803.13
6. Closing balance of cash and cash equivalents	5,764,044.55	16,317,774.62

Legal representative
Zhang Shi Quan

Chief Financial Officer
Zhang Lan Jun

Head of Finance Section
Li Gen Mei

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2023 | (RMB Yuan) | (English translation for reference only)

Item	2023														Total owner's equity	
	Attributable to equity holders of the parent													Minority interest		
	Share capital	Other equity instruments			Capital reserve	Less: Inventory shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Retained earnings	Others	Sub-total			
1. Balance at the end of last year	789,644,637.00				182,334,093.78					137,936,874.81		282,745,271.10		1,392,660,876.69	-19,562,904.83	1,373,097,971.86
2. Balance at the beginning of year	789,644,637.00				182,334,093.78					137,936,874.81		282,745,271.10		1,392,660,876.69	-19,562,904.83	1,373,097,971.86
3. Increase/decrease during the period ("-" for decrease)																
(1) Total comprehensive income										1,322,460.24		75,881,882.55		77,204,342.79	7,661,289.08	84,865,631.87
(2) Profit distribution										1,322,460.24		-1,322,460.24				
(i) Appropriation of surplus reserve										1,322,460.24		-1,322,460.24				
(3) Special reserve																
1. Withdrawal during the period										9,028,662.67					907,587.42	9,936,250.09
2. Usage during the period										9,028,662.67					907,587.42	9,936,250.09
4. Balance at the end of year	789,644,637.00				182,334,093.78					139,259,335.05		358,627,153.65		1,469,865,219.48	-11,901,615.75	1,457,963,603.73

Item	2022														Total owner's equity	
	Attributable to equity holders of the parent													Minority interest		
	Share capital	Other equity instruments			Capital reserve	Less: Inventory shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Retained earnings	Others	Sub-total			
1. Balance at the end of last year	789,644,637.00				182,334,093.78					136,516,449.60		268,342,103.84		1,376,837,284.22	-22,003,111.66	1,354,834,172.56
2. Balance at the beginning of year	789,644,637.00				182,334,093.78					136,516,449.60		268,342,103.84		1,376,837,284.22	-22,003,111.66	1,354,834,172.56
3. Increase/decrease during the period ("-" for decrease)																
(1) Total comprehensive income										1,420,425.21		14,403,167.26		15,823,592.47	2,440,206.83	18,263,799.30
(2) Profit distribution										1,420,425.21		-1,420,425.21				
(i) Appropriation of surplus reserve										1,420,425.21		-1,420,425.21				
4. Balance at the end of year	789,644,637.00				182,334,093.78					137,936,874.81		282,745,271.10		1,392,660,876.69	-19,562,904.83	1,373,097,971.86

Legal representative
Zhang Shi Quan

Chief Financial Officer
Zhang Lan Jun

Head of Finance Section
Li Gen Mei

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the year 2023 | (RMB Yuan) | (English translation for reference only)

Item	2023											Total owner's equity
	Share capital	Other equity instruments			Capital reserve	Less: Inventory shares	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Others	
		Preferred shares	Perpetual bonds	Others								
1. Balance at the end of last year	789,644,637.00				187,767,058.72				76,933,897.77	57,743,566.96		1,112,089,160.45
2. Balance at the beginning of year	789,644,637.00				187,767,058.72				76,933,897.77	57,743,566.96		1,112,089,160.45
3. Increase/decrease during the period ("-" for decrease)									1,322,460.24	11,902,142.20		13,224,602.44
(1) Total comprehensive income										13,224,602.44		13,224,602.44
(2) Profit distribution									1,322,460.24	-1,322,460.24		
(i) Appropriation of surplus reserve									1,322,460.24	-1,322,460.24		
(3) Special reserve												
1. Withdrawal during the period									1,603,249.09			1,603,249.09
2. Usage during the period									1,603,249.09			1,603,249.09
4. Balance at the end of year	789,644,637.00				187,767,058.72				78,256,358.01	69,645,709.16		1,125,313,762.89

Item	2022											Total owner's equity
	Share capital	Other equity instruments			Capital reserve	Less: Inventory shares	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Others	
		Preferred shares	Perpetual bonds	Others								
1. Balance at the end of last year	789,644,637.00				187,767,058.72				75,513,472.56	44,959,740.08		1,097,884,908.36
2. Balance at the beginning of year	789,644,637.00				187,767,058.72				75,513,472.56	44,959,740.08		1,097,884,908.36
3. Increase/decrease during the period ("-" for decrease)									1,420,425.21	12,783,826.88		14,204,252.09
(1) Total comprehensive income										14,204,252.09		14,204,252.09
(2) Profit distribution									1,420,425.21	-1,420,425.21		
(i) Appropriation of surplus reserve									1,420,425.21	-1,420,425.21		
4. Balance at the end of year	789,644,637.00				187,767,058.72				76,933,897.77	57,743,566.96		1,112,089,160.45

Legal representative
Zhang Shi Quan

Chief Financial Officer
Zhang Lan Jun

Head of Finance Section
Li Gen Mei



NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

1. GENERAL

Zhejiang Shibao Company Limited (hereafter referred to as the “Company”) is a joint stock limited company approved by the document (ZHE SHANG SHI [2004] 37) (浙上市[2004]37號) issued by the Listing Affair Team (上市工作領導小組) of the People’s Government of Zhejiang Province. The Company was established by ways of promotion jointly by Zhejiang Shibao Holding Group Co., Ltd., Wu Wei Xu (吳偉旭), Wu Lang Yue (吳琅躍), Du Chun Mao (杜春茂) and Chen Wen Hong (陳文洪) on the basis of Zhejiang Shibao Steering Gear Co., Ltd.. The Company was registered and incorporated with Zhejiang Administration for Industry & Commerce on 30 April 2004. Currently, it holds the business licence with a creditability code (913300001476445210) issued by the Zhejiang Administration Bureau of Industry and Commerce. The current share capital of the Company is RMB789,644,637.00 divided into a total of 789,644,637 shares (RMB1 for each share). Of which, shares with selling restrictions include 19,799,310 A Shares; shares without selling restrictions include 553,060,327 A Shares and 216,785,000 H Shares. The Company’s Shares were listed on the GEM of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange on 16 May 2006 and 2 November 2012, respectively. On 9 March 2011, the Company’s Shares were approved to be listed and traded on the Main Board of the Hong Kong Stock Exchange. It has consolidated to the main board of Shenzhen Stock Exchange since 6 April 2021.

The Company operates in the automotive components manufacturing industry. The main business activities are the R&D, production and sales of automotive steering system and components.

The financial statements have been approved for publication at the 18th meeting of the seventh session of the Board of the Company on 28 March 2024.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of Preparation

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

(2) Evaluation on ability of continuing operation

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

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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

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

(2) Accounting Year

The accounting year is from 1 January to 31 December.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(3) Operating Cycle

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

(4) Functional Currency

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

(5) Method for Determining Materiality Criteria and Basis for Selection

The Company prepares and discloses financial statements in accordance with the principle of materiality. The matters disclosed in the notes to the financial statements involving the judgment of materiality criteria and the determination methods and selection basis of materiality criteria are as follows:

Matters disclosed involving the judgment of materiality criteria	Disclosure of the matter in the notes to the financial statements	Method for determining materiality criteria and basis for selection
Material accounts receivable with bad debt provision on individual basis	5 (1) 3 (1) 2), 15 (1) 1 (1) 2)	The Company recognized accounts receivable with amount of accounts receivable on individual basis exceeding of total assets × 0.1% as material accounts receivable
Recovery or reversal for bad debt provisions of material accounts receivable	5 (1) 3 (3) 2), 15 (1) 1 (3) 2)	
Material accounts receivable written off	5 (1) 3 (4) 2), 15 (1) 1 (4)	The Company recognized other accounts receivable with amount of other accounts receivable on individual basis exceeding of total assets × 0.1% as other material accounts receivable
Other material receivables with bad debt provision on individual basis	5 (1) 6 (3) 2)	
Recover or reversal for bad debt provisions of other material accounts receivable	5 (1) 6 (4) 2)	
Other material accounts receivable written off	5 (1) 6 (5), 15 (1) 2 (4)	
Material prepayments aged over 1 year	5 (1) 5 (1) 2)	The Company recognized prepayments with amount of prepayments on individual basis exceeding of total assets × 0.1% as material prepayments
Material construction in progress	5 (1) 11 (2)	The Company recognized construction in progress with amount of construction in progress exceeding of total assets × 0.3% as material construction in progress

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(5) Method for Determining Materiality Criteria and Basis for Selection *(continued)*

Matters disclosed involving the judgment of materiality criteria	Disclosure of the matter in the notes to the financial statements	Method for determining materiality criteria and basis for selection
Material accounts payable aged over 1 year	5 (1) 19 (3)	The Company recognized accounts payable with amount of accounts payable on individual basis exceeding of total assets \times 0.1% as material accounts payable
Material receipts in advance aged over 1 year or overdue	5 (1) 20 (2)	The Company recognized receipts in advance with amount of receipts in advance on individual basis exceeding of total assets \times 0.1% as material receipts in advance
Material contract liabilities aged over 1 year	5 (1) 21 (2)	The Company recognized contract liabilities with amount of contract liabilities on individual basis exceeding of total assets \times 0.1% as material contract liabilities
Other material payables aged over 1 year	5 (1) 24 (2)	The Company recognized other payables with amount of other payables on individual basis exceeding of total assets \times 0.1% as other material payables
Material cash flows from investing activities	5 (3) 1	The Company recognized cash flows from investing activities with amount of cash flows from investing activities on individual basis exceeding of total assets \times 5% as material cash flows from investing activities
Significant non-wholly owned subsidiaries	7 (2) 1	The Company recognized subsidiaries with total assets exceeding 1% of the Group's total assets as significant non-wholly owned subsidiaries
Major commitments	12 (1)	The Company recognized commitments with amount of a commitment on individual basis exceeding of total assets \times 2% or other commitments that have a significant impact on investors' decision-making as major commitments
Important contingencies	12 (2)	The Company recognized contingencies with amount of a contingency on individual basis exceeding of total assets \times 2% or other contingencies that have a significant impact on investors' decision-making as important contingencies
Important events after the balance sheet date	13	The Company recognized profit distribution after the balance sheet date as important events after the balance sheet date

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

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

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

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

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

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

(7) Judgment Criteria of Control and Preparation Basis of Consolidated Financial Statements

1. Judgment criteria of control

Control is achieved when the Group has power over the investee, enjoys variable returns by participating in the relevant activities of the investee, and has the ability to use the power of the investee to influence the amount of returns.

2. Preparation basis of consolidated financial statements

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

(8) Recognition Standards for Cash and Cash Equivalents

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

(9) Foreign Currency Translation

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(10) Financial Instruments

1. Classification of financial assets and financial liabilities

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

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

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

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

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

(2) Subsequent measurement of financial assets

1) Financial assets at amortised cost

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

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

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

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

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

4) Financial assets at FVTPL

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(10) Financial Instruments *(continued)*

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

(3) *Subsequent measurement of financial liabilities*

1) Financial liabilities at FVTPL

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

2) Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or continuing involvement in the transferred financial assets.

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

3) Financial guarantee contracts not classified as those specified in 1) or 2) above, and loan commitment for loans to be granted at an interest rate below the market rate which is not classified as those specified in the above 1)

Subsequently measured at the higher of the following two amounts upon initial recognition: (1) the amount of loss provision determined in accordance with the impairment provisions of financial instruments, and (2) initial amount recognized net of accumulated amortization determined in accordance with relevant requirements of "PRC GAAP 14 — Revenue".

4) Financial liabilities at amortised cost

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

(4) *Derecognition of financial assets and liabilities*

1) Financial assets are derecognised when:

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(10) Financial Instruments *(continued)*

3. Recognition and measurement of transfer of financial assets

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(10) Financial Instruments *(continued)*

5. Impairment on financial instruments

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

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

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

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

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

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

The Company assumes that there has not been a significant increase in the credit risk, if a financial instrument is determined to have a low credit risk at the balance sheet date.

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

Expected credit losses are remeasured at each balance sheet date, and any increase or reversal of loss reserves arising therefrom is recorded in the current profit or loss as impairment losses or gains. For a financial asset at amortised cost, the loss reserve reduces the carrying amount of the financial asset as shown in the balance sheet; for a debt instrument investment at fair value through other comprehensive income, the loss reverse is recognised in other comprehensive income without reducing the carrying amount of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(10) Financial Instruments *(continued)*

6. Offsetting financial assets and financial liabilities

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

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

(11) Recognition Criteria for and Provision Method of ECL of Accounts Receivable

1. Accounts receivable for which ECL is provided based on credit risk characteristics portfolio

Groups	Grouping basis	Expected credit loss calculation approach
Bank acceptance bills receivable	Issuer of promissory notes	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate
Commercial acceptance bills receivable		
Accounts Receivable – grouping by age	Age	A table of the age of accounts receivable and the expected credit losses is prepared, and the expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions
Accounts Receivable – group of related dealings within the scope of combination	Related parties within the scope of combination (Note)	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate
Other receivables – group of receivables from government	Nature	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and 12-month or lifetime expected credit loss rate.
Other receivables – group of security deposits receivable		
Other receivables – group of imprest receivable and other groups		
Other receivables – group of related dealings within the scope of combination	Related parties within the scope of combination (Note)	

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(11) Recognition Criteria for and Provision Method of ECL of Accounts Receivable *(continued)*

2. Table of the aging of the group of age and the expected credit loss rate

Age	Expected credit loss rate of amounts receivable (%)
Within 1 year (inclusive)	0.09
1-2 years	5.52
2-3 years	23.15
Over 3 years	100.00

The aging of accounts receivable is calculated from the month in which the payment actually occurs.

3. Recognition criteria for amounts receivable for which expected credit loss is provided on an individual basis

For amounts receivable with significantly different credit risks and portfolio credit risks, the Company makes provision for expected credit loss on an individual basis.

(12) Inventories

1. Classifications of inventories

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

2. Cost of inventories transferred out

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

3. Inventory system

The Company maintains a perpetual inventory system.

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

(1) *Low-value consumables*

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

(2) *Packaging materials*

Packaging materials are amortised in full when received for use.



NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(12) Inventories *(continued)*

5. Recognition criteria and provision method of provision for diminution in the value of inventories

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

(13) Non-current Assets or Disposal Groups Classified as Held for Sale, Termination of Operations

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(13) Non-current Assets or Disposal Groups Classified as Held for Sale, Termination of Operations *(continued)*

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

(1) Initial measurement and subsequent measurement

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(13) Non-current Assets or Disposal Groups Classified as Held for Sale, Termination of Operations *(continued)*

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

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

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

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

3. Criteria for recognition of termination of operations

A component that meets one of the following conditions, has been disposed of or is classified as held for sale and can be distinguished separately is recognized as the termination of operation:

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

4. Presentation method of termination of operations

The Company presents profit or loss from continuing operations and profit or loss from termination of operations in the income statement. Operating profit or loss and disposal profit or loss such as impairment loss and reversal amount of termination of operations are presented as profit or loss from termination of operations. For the termination of operations presented in the current period, the information originally presented as profit or loss from continuing operations in the current financial statements is re-presented as the profit or loss from termination of operations in the comparable period. If the termination of operations no longer meets the conditions for the classification of the held for sale category, the information originally presented as the profit or loss from termination of operations in the current financial statements is re-presented as the profit or loss from continuing operations for the comparable period.

(14) Long-Term Equity Investments

1. Judgement on joint control and significant effects

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

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

2. Determination of investment cost

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

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

2. Determination of investment cost *(continued)*

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

3. Subsequent measurement and recognition

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

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

(1) Judgment principle of whether it is a “package deal”

If the equity investment in a subsidiary is disposed of in stages through multiple transactions until the control is lost, the Company determines whether the step-by-step transaction is a “package deal” by taking into account the terms of the transaction agreement for each step of the step-by-step transaction, the disposal consideration obtained, the target of the equity sold, the disposal method, the disposal time point and other information. The terms, conditions and economic effects of each transaction meet one or more of the following conditions, which generally indicate that multiple transactions are classified as a “package deal”:

- 1) These transactions were entered into at the same time or with consideration of each other’s influence;
- 2) These transactions as a whole can achieve a complete commercial result;
- 3) The occurrence of a transaction depends on the occurrence of at least one other transaction;
- 4) A transaction is not economical on its own, but it is economical when considered together with other transactions.

(2) Accounting treatment for the transaction which is not categorized as a “package deal”

1) Separate financial statements

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

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

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

(2) Accounting treatment for the transaction which is not categorized as a “package deal” *(continued)*

2) Consolidated financial statements

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

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

(3) Accounting treatment for the transaction which is categorized as a “package deal”

1) Separate financial statements

The transactions are treated as one single transaction of disposal of a subsidiary and loss of right to control. However, prior to the loss of right to control, the difference between each of the consideration of disposal and the book value of the long-term equity investment corresponding to the disposal of investment is recognized as other comprehensive income in the separate financial statements and transferred to profit or loss for the period covering when the right of control is lost.

2) Consolidated financial statements

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

3. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(15) Investment Property

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

(16) Fixed Assets

1. Recognition of fixed assets

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

2. Depreciation of fixed assets

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

(17) Construction in Progress

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

Class	Standards and timing for the transfer of construction in progress to fixed assets
Buildings	The main project and auxiliary project have been substantially completed and the project has met the pre-determined design requirements, and have completed the acceptance by inspection, design, construction, supervision and other units
Machinery and equipment	To meet the design requirements or contractual standards after installation and commissioning

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(18) Borrowing Costs

1. Capitalization of borrowing costs

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

2. Timing of borrowing costs capitalization

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

3. Capitalization rate and amount of borrowing costs

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

(19) Intangible Assets

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

Item	Useful life and its determination basis	Amortization method
Land use rights	50 years, legal ownership	Straight-line basis
Patented technology	10 years, the useful life is determined with reference to the period that can bring economic benefits to the Company	Straight-line basis
Non-patented technology	5-10 years, the useful life is determined with reference to the period that can bring economic benefits to the Company	Straight-line basis
Management software	5 years, the useful life is determined with reference to the period that can bring economic benefits to the Company	Straight-line basis

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(19) Intangible Assets *(continued)*

3. The scope of R&D expenses

(1) Personnel labor expenses

Personnel labor expenses include salaries, basic pension insurance, basic medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing fund for the Company's R&D personnel, as well as labor expenses for external R&D personnel.

For R&D personnel serve multiple R&D projects at the same time, the labor expenses are determined based on the working hours of the R&D personnel of each R&D project provided by the management department of the Company, and are allocated among different R&D projects on a pro rata basis.

For personnel directly engaged in R&D activities and external R&D personnel engaged in non-R&D activities, the Company allocates the actual personnel labor expenses according to the working hours of R&D personnel in their different positions between R&D expenses and production and operation expenses based on reasonable methods such as the proportion of actual working hours.

(2) Direct input expenses

Direct input expenses refer to the relevant expenses actually incurred by the Company for the implementation of R&D activities. Including: 1) Direct consumption of materials, fuel and power; 2) The development and production of moulds and technical equipment for intermediate experiments and trial production of products, which do not constitute the purchase expenses for samples, prototypes and general testing methods of fixed assets, and the inspection expenses for trial production of products; 3) Operation, maintenance, adjustment, inspection, testing and maintenance expenses of instruments and equipment used in R&D activities.

(3) Depreciation expenses and long-term deferred expenses

Depreciation expenses refer to the charges for instruments, equipment and buildings in use for R&D activities.

Where instruments, equipment and buildings in use used for R&D activities, which are also used for non R&D activities, necessary records shall be made for the use of such instruments, equipment and buildings in use, and the actual depreciation expenses shall be allocated between R&D expenses and production and operation expenses using reasonable methods based on factors such as the actual working hours and area of use.

Long-term deferred expenses refer to the expenses incurred in the process of reconstruction, modification, renovation and repair of R&D facilities, which are classified according to the actual expenses and amortized equally over the specified period.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(19) Intangible Assets *(continued)*

3. The scope of R&D expenses *(continued)*

(4) Amortization expense of intangible assets

Amortization expense of intangible assets refers to the amortization expense of software, intellectual property and non-patented technologies (proprietary technologies, licenses, design and calculation methods, etc.) used in R&D activities.

(5) Design expenses

Design expenses refer to the expenses incurred for the conceptualization, development and manufacturing of new products and processes, the formulation of processes, technical specifications, procedures, and the design of operational characteristics, including the expenses related to the creative design activities for obtaining innovative, creative and breakthrough products.

(6) Equipment commissioning expenses

Equipment commissioning expenses refer to the expenses incurred in R&D activities during the preparation of tooling, including the expenses incurred in the development of specialized production machines, changes in production and quality control procedures, or the formulation of new methods and standards.

The expenses incurred for regular tooling preparation and industrial engineering for large-scale batch and commercial production are not included in the classified scope.

(7) Entrusted external R&D expenses

Entrusted external R&D expenses refer to the expenses incurred by the Company in entrusting other domestic or overseas institutions or individuals to conduct R&D activities (the results of R&D activities are owned by the Company and are closely related to the Company's major operating business).

(8) Other expenses

Other expenses refer to other expenses directly related to R&D activities in addition to the above expenses, including technical books and reference materials, information translation, expert consultation, high-tech R&D insurance premiums, expenses for the retrieval, argumentation, assessment, appraisal and acceptance of R&D results and for the application, registration, agencies, conference, travelling, communication of intellectual property.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(20) Partial Long-Term Asset Impairment

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

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

(21) Long-term deferred expenses

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

(22) Staff Costs

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

2. Accounting treatment for short-term remuneration

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

3. Accounting treatment of post-employment benefits

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(22) Staff Costs *(continued)*

3. Accounting treatment of post-employment benefits *(continued)*

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

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

4. Accounting treatment of dismissal benefits

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

5. Accounting treatment of other long-term benefits

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(23) Provision for liability

1. Provisions for liability are recognized when the Company has a present obligation as a result of contingencies such as provision of external guarantee, litigation, product quality warranty, and loss-making contract, and it is very likely that an outflow of economic benefits will be resulted from settlement of the obligation, and a reliable estimate of the amount of the obligation can be made.
2. Provisions are initially stated at the best estimate of the expenditure expected to be required for settling the present obligation. Carrying values of all provisions for liability are reviewed at balance sheet date.

(24) Revenue

1. Revenue recognition

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(24) Revenue *(continued)*

2. Revenue measurement

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

3. Methods of revenue recognition

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



NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(25) Contract assets, Contract liabilities

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

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

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

(26) Government Grants

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

2. Judgment basis and accounting methods on the government grants relating to assets

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

3. Judgment basis and accounting methods on the government grants relating to revenue

Other than government grants pertinent to assets, other government grants are government grants pertinent to income. The Company classifies government grants that contain both assets-related and income-related portion or those that are difficult to distinguish as the ones related to income on an entire basis. Government grants relating to income and applied towards reimbursement of related costs or losses in subsequent periods are recognised as deferred income and taken to current profit or loss or offset the related costs for the period in which the related costs or losses are recognised. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognised in current profit or loss or offset the related costs.

4. Government grants related to the Company's daily operations are included in other income or offset against relevant expenses according to the economic nature of business. Government grants that are not related to the Company's daily operations are included in the non-operating income or expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(27) Deferred Tax Assets and Deferred Tax Liabilities

1. Deferred tax assets or deferred tax liabilities are recognised based on the difference between the carrying amounts of the assets or liabilities and their tax bases (or, for an item not recognised as assets or liabilities but whose tax base can be determined under tax laws, the difference between the tax base and the carrying amount), and are calculated at the tax rates expected to apply to the period in which the assets are recovered or the liabilities are settled.
2. Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. At the balance sheet date, deferred tax assets unrecognised in prior periods are recognised to the extent that there is obvious evidence that it has become probable that sufficient taxable profit will be available in subsequent periods against which the deductible temporary differences can be utilised.
3. The carrying amount of deferred tax assets is reviewed at the balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax asset can be utilised. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.
4. The Company's current and deferred income taxes are recognised in current profit or loss as tax expense or profit, excluding income tax arising from business combination, as well as transactions or items directly recognised in equity.
5. When the following conditions are met at the same time, the Company presents the deferred income tax assets and deferred income tax liabilities as the net amount after offsetting: (1) the Company has the legal right to settle the current income tax assets and current income tax liabilities on a net basis; (2) the deferred income tax assets and deferred income tax liabilities are related to the income tax levied by the same tax collection and management department on the same taxable entity or related to different taxable entities, but the involved taxable entities intend to settle the current income tax assets and current income tax liabilities on a net basis or acquire assets and pay off debts simultaneously in each future period in which significant deferred income tax assets and deferred income tax liabilities are reversed.

(28) Leases

1. Company as a lessee

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(28) Leases *(continued)*

1. Company as a lessee *(continued)*

(1) Right-of-use assets

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

Provision for depreciation is made on right-of-use assets by the Company on a straight-line basis. Right-of-use assets in which the Company is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated over the remaining useful life of the leased assets. Otherwise, right-of-use assets are depreciated over the shorter of the lease term and its remaining useful life.

(2) Lease liabilities

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

After the commencement date of the lease term, when there is change in either the in-substance fixed payments, the amount expected to be payable under a residual value guarantee, the index or rate used to determine the amount of lease payments, the assessment results on the purchase options, extension options or termination options or the actual exercise of such options, the lease liability is remeasured to the present value of the revised lease payments, and a corresponding adjustment is made to the carrying amount of the right-of-use assets. Where the carrying amount of the right-of-use asset has been reduced to zero while further reduction is required to be made to the carrying amount of the lease liability, the remaining amount is recorded in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(28) Leases *(continued)*

2. Company as a lessor

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

(1) Operating leases

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

(2) Finance leases

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

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

(29) Safety production expenses

The safety production expenses withdrawn by the Company in accordance with the provisions of "the Administrative Measures for the Withdrawal and Use of Expenses for Safety Production of Enterprise" (Cai Zi [2022] No. 136) issued by the Ministry of Finance and the Ministry of Emergency Management are included in the cost of relevant products or profit or loss for the current period, and are also included in the item of "special reserve". When the extracted safety production expenses are used, they are directly offset against the special reserve if they are expenses. When fixed assets are formed, the expenses incurred are collected through the item of "construction in progress", and recognized as fixed assets when the safety project is completed and ready for its intended use; at the same time, the special reserve is offset according to the cost of forming fixed assets, and the accumulated depreciation of the same amount is recognized. The fixed assets will not be depreciated in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(30) Segment Reporting

The Company determines the operating segments on the basis of the internal organisational structure, management requirements and internal reporting system. The operating segments of the Company refer to the component that meets all of the following conditions:

1. The component is able to generate income and incur expenses in daily activities;
2. The management is able to regularly evaluate the operating results of the segment to determine the allocation of resources and assess its performance;
3. The financial position, operating results, cash flow and other relevant accounting information of the segment can be obtained through analysis.

(31) Significant Accounting Judgments and Estimates

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Key assumptions of the estimates and judgments of uncertain factors are reviewed on an ongoing basis by the Company. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Key sources of estimation uncertainty are as follows:

1. Recognition of deferred tax assets

As stated in Note 3 (27) to the financial statements, deferred tax assets are recognised by the Company at the deductible temporary difference between the carrying amount of assets and liabilities and their tax bases (or, for an item not recognised as assets or liabilities but whose tax base can be determined under tax laws, the difference between the tax base and the carrying amount) based on the tax rate applicable to the period when the asset is recovered or the liability is settled. Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

2. Impairment of financial instruments

As stated in Note 3 (10), (11) to the financial statements, based on expected credit losses, the Company accounts for the impairment of, and recognizes provisions for financial assets at amortised cost (accounts receivables, other receivables), debt instrument investments at fair value through other comprehensive income (financing receivables).

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(31) Significant Accounting Judgments and Estimates *(continued)*

3. Provision for inventory obsolescence

As stated in Note 3 (12) to the financial statements, as at the balance sheet date, the Company's inventories are stated at the lower of cost and net realizable value, provision for inventory obsolescence will be made based on the surplus of cost over net realizable value; For inventories for direct sales, net realizable value is recognized at the estimated selling price of such inventories in the ordinary course of business, less estimated costs necessary to make the sale and relevant taxes; For inventories which require processing before sale, net realizable value is recognized at the estimated selling price of the finished goods produced in the ordinary course of business, less estimated costs to be incurred upon completion, costs necessary to make the sale and relevant taxes; As at the balance sheet date, for an item of inventories where a portion is subject to contractual price while the remainder is not, their net realizable values are determined and compared with their corresponding costs respectively to recognize the amount of provision, or reversal of provision, for inventory obsolescence.

4. Long-term asset impairment

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

(32) Material changes in accounting policies

Changes in accounting policies caused by changes in Accounting Standards for Business Enterprises

With effect from 1 January 2023, the Company implemented the provisions of "Interpretation No. 16 on ASBE", "accounting treatment that exemption from initial recognition does not apply to deferred income tax associated with assets and liabilities arising from a single transaction", and the change of such accounting policy has no significant effect on the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

4. TAXATION

(1) Major Taxes and Tax Rates

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

(Note 1) The sale of the steering systems, parts and other commodities by the Company and the respective subsidiaries have been subject to the VAT at the rate of 13%. The “exemption, offset and rebate” tax policy has applied to export goods of Hangzhou Shibao Auto Steering Gear Co., Ltd., a subsidiary of the Company, and the export rebate was 13%. The transfer of patented technologies and provision of services and otherwise by the Company and the respective subsidiaries have been subject to the VAT at the rate of 6%. The leasing of real estate acquired before 30 April 2016 by the Company, Hangzhou New Shibao Electric Power Steering Co., Ltd. and Wuhu Sterling Steering System Co. Ltd., subsidiaries of the Company, is subject to the VAT at the simplified rate of 5%, while the leasing of real estate acquired after 30 April 2016 is subject to the VAT at the rate of 9%.

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

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

(2) Tax Concession and Approval Documents

- According to the “Announcement on Filing of High-tech Enterprises Recognized and Reported by Zhejiang Provincial Certification Authority in 2023” (《對浙江省認定機構2023年認定報備的高新技術企業進行備案的公告》) issued by the National High-tech Enterprise Certification Management Leading Group Office, the Company, the Company’s subsidiaries, namely, Hangzhou Shibao Auto Steering Gear Co., Ltd. and Hangzhou New Shibao Electric Power Steering Co., Ltd. obtained the High-tech Enterprise Certificates (No. GR202333007462, GR202333007079 and GR202333005129, respectively), with a valid period from 2023 to 2025, and were subject to a reduced enterprise income tax rate of 15% during the period.
- According to the “Announcement on Filing of the Second Batch of High-tech Enterprises Recognized and Reported by Beijing Municipal Certification Authority in 2023” (《對北京市認定機構2023年認定報備的第二批高新技術企業進行備案的公告》) issued by the National High-tech Enterprise Certification Management Leading Group Office, a subsidiary of the Company, Beijing Autonics Technology Co., Ltd. obtained the High-tech Enterprise Certificate (No. GR202311001400), with a valid period from 2023 to 2025, and it was subject to an enterprise income tax rate of 15% during the period.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

4. TAXATION (continued)

(2) Tax Concession and Approval Documents (continued)

- (3) According to the “Announcement on Filing of the Second Batch of High-tech Enterprises Recognized and Reported by Anhui Provincial Certification Authority in 2023” (《對安徽省認定機構2023年認定報備的第二批高新技術企業進行備案的公告》) issued by the National High-tech Enterprise Certification Management Leading Group Office, a subsidiary of the Company, Wuhu Sterling Steering System Co., Ltd. obtained the High-tech Enterprise Certificate (No. GR202334006504), with a valid period from 2023 to 2025, and was subject to an enterprise income tax rate of 15% during the period.
- (4) According to the Announcement on the Value-added Tax Super Deduction Policy for Advanced Manufacturing Enterprises (Announcement of the Ministry of Finance and the State Administration of Taxation [2023] No. 43) (《關於先進製造業企業增值稅加計抵減政策的公告》(財政部稅務總局公告2023年第43號)) issued by the Ministry of Finance and the State Administration of Taxation, from 1 January 2023 to 31 December 2027, advanced manufacturing enterprises are allowed to deduct 5% of the current deductible input tax from the VAT payable. During the period, the Company, the Company’s subsidiaries, namely, Hangzhou Shibao Auto Steering Gear Co., Ltd., Hangzhou New Shibao Electric Power Steering Co., Ltd., Beijing Autonics Technology Co., Ltd. and Wuhu Sterling Steering System Co., Ltd., were entitled to the above super deduction policy.
- (5) According to Article 6 of the Interim Regulations of the People’s Republic of China on Real Estate Tax (Guo Fa [1986] No. 90), taxpayers who have difficulties in paying tax may be determined by the people’s governments of provinces, autonomous regions and municipalities directly under the Central Government to regularly reduce or exempt real estate tax. During the period, the property tax of Hangzhou Shibao Auto Steering Gear Co., Ltd., a subsidiary of the Company, was reduced by 90%.
- (6) According to the “Announcement on Tax Policies to Further Support the Entrepreneurship and Employment of Retired Soldiers in Independent Employment (Announcement No. 14 of 2023 of the Department of Veterans Affairs of the Ministry of Finance, the State Taxation Administration and the Veterans Affairs)” (《關於進一步扶持自主就業退役士兵創業就業有關稅收政策的公告》(財政部稅務總局退役軍人事務部公告2023年第14號)) issued by the Ministry of Finance, the State Taxation Administration and the Veterans Affairs Department, from 1 January 2023 to 31 December 2027, if an enterprise recruits retired soldiers for independent employment and signs a labor contract with them for a term of more than one year and pays social insurance premiums in accordance with the law, the VAT, urban maintenance and construction tax, education surcharge, local education surcharge and enterprise income tax shall be deducted in a fixed amount according to the actual number of recruits within three years from the month of signing the labor contract and paying social insurance. During the period, Hangzhou New Shibao Electric Power Steering Co., Ltd., a subsidiary of the Company, was exempted from VAT by RMB36,000.00.
- (7) According to the Notice on Value-added Tax Policies for Software Products (Cai Shui [2011] No. 100) (《關於軟體產品增值稅政策的通知》(財稅〔2011〕100號)) issued by the Ministry of Finance and the State Administration of Taxation, general VAT taxpayers selling software products developed and manufactured by themselves shall implement the immediate refund policy for the part of the actual VAT burden exceeding 3%. Beijing Autonics Technology Co., Ltd., a subsidiary of the Company, enjoyed the above policies during the period.
- (8) According to the Notice on the Continued Reduction of Local Water Conservancy Construction Fund for Micro-, Small-and Medium-sized Enterprises in Anhui Province (Wan Cai Zong [2023] No. 245) (《關於我省中小微企業繼續減征地方水利建設基金的通知》(皖財綜〔2023〕245號)) issued by the Department of Finance of Anhui Province and the Anhui Provincial Tax Service of the State Taxation Administration, the local water conservancy construction fund levied on micro-, small-and medium-sized enterprises in Anhui Province was originally stipulated in the Notice on the Reduction of Local Water Conservancy Construction Fund (《關於我省中小微企業減征地方水利建設基金的通知》) for Micro-, Small-and Medium-sized Enterprises in Anhui Province, and the implementation period was extended to 31 December 2023 at 90% of the existing rate. During the period, the local water conservancy construction fund of Wuhu Sterling Steering System Co., Ltd., a subsidiary of the Company, was calculated at 90%.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Notes to the Consolidated Balance Sheet

1. Cash on hand and at bank

Item	Balance at the end of the period	Balance at the end of last year
Cash	111,308.40	57,616.75
Bank deposits	119,736,748.86	155,602,605.57
Other monetary funds	38,633,427.68	76,565,438.46
Total	158,481,484.94	232,225,660.78
Including: total funds placed overseas		

2. Financial assets held for trading

(1) *Breakdown*

Item	Balance at the end of the period	Balance at the end of last year
Financial assets at fair value through profit or loss	110,253,432.83	120,393,605.57
Including: Stock investment	2,843,387.88	3,264,691.96
Bank wealth management products	107,410,044.95	117,128,913.61
Total	110,253,432.83	120,393,605.57

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

2. Financial assets held for trading (continued)

(2) Other statements

1) Statement on stock investment

As of 31 December 2023, its subsidiary, Hangzhou Shibao Auto Steering Gear Co., Ltd., holds 636,086 shares of Lifan Technology (Group) Co., Ltd. (Stock short name: ST Lifan, stock code: 601777). The fair value of the shares at the end of the period is RMB3.58 per share, and the value of the stock investment at the end of the period is RMB2,277,187.88. Hangzhou Shibao Auto Steering Gear Co., Ltd., and Wuhu Sterling Steering System Co., Ltd. (both subsidiaries) holds 190,000 shares of Zotye Automobile Co., Ltd. (眾泰汽車股份有限公司) (Stock short name: *ST Zotye, stock code: 000980). The fair value of the shares at the end of the period is RMB2.98 per share, and the value of the stock investment at the end of the period is RMB566,200.00.

2) Statement on bank wealth management products

As at 31 December 2023, its subsidiary, Hangzhou Shibao Auto Steering Gear Co., Ltd., has wealth management products of RMB62,000,000.00 and RMB30,000,000.00 acquired from China CITIC Bank and Bank of Ningbo Co., Ltd., respectively. The fair value of such wealth management products at the end of the period are RMB62,000,000.00 and RMB30,000,000.00, respectively. It has wealth management product of RMB15,000,000.00 acquired from Hangzhou Bank Co., Ltd. with fair value at the end of the period of RMB15,410,044.95. Such wealth management products are short-term bank wealth management products.

3. Accounts receivable

(1) Aging status

Age	Carrying amount at the end of the period	Carrying amount at the beginning of the period
Within 1 year	708,412,987.42	438,653,295.14
1-2 years	8,706,884.90	10,486,098.56
2-3 years	2,122,197.40	4,101,101.30
Over 3 years	29,834,084.97	32,496,268.47
Total	749,076,154.69	485,736,763.47

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Accounts receivable (continued)

(2) Provision for bad debts

1) Breakdown by type

Type	Carrying amount		Balance at the end of the period		Book value
	Amount	(%)	Provision for bad debts Amount	Provision (%)	
Bad debt provision on individual basis	26,127,294.88	3.49	26,127,294.88	100.00	
Bad debt provision by groups	722,948,859.81	96.51	5,371,253.38	0.74	717,577,606.43
Total	749,076,154.69	100.00	31,498,548.26	4.20	717,577,606.43

Type	Carrying amount		Balance at the end of last year		Book value
	Amount	(%)	Provision for bad debts Amount	Provision (%)	
Bad debt provision on individual basis	29,913,229.65	6.16	29,913,229.65	100.00	
Bad debt provision by groups	455,823,533.82	93.84	5,444,677.18	1.19	450,378,856.64
Total	485,736,763.47	100.00	35,357,906.83	7.28	450,378,856.64

2) Significant accounts receivable with bad debt provision on individual basis

Company Name	Balance at the end of last year		Balance at the end of the period			Basis of provision
	Carrying amount	Provision for bad debts	Carrying amount	Provision for bad debts	Provision (%)	
Hubei Meiyang Auto Industrial Co., Ltd. (湖北美洋汽車工業有限公司)	15,173,882.52	15,173,882.52	13,191,478.86	13,191,478.86	100.00	Amount is not expected to be recovered
Jiangsu Jintan Auto Industry Co., Ltd. (江蘇金壇汽車工業有限公司)	6,646,258.01	6,646,258.01	6,646,258.01	6,646,258.01	100.00	Amount is not expected to be recovered
Subtotal	21,820,140.53	21,820,140.53	19,837,736.87	19,837,736.87	100.00	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Accounts receivable (continued)

(2) Provision for bad debts (continued)

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

Age	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year	708,412,987.42	637,571.69	0.09
1-2 years	8,706,884.90	480,620.05	5.52
2-3 years	2,050,651.73	474,725.88	23.15
Over 3 years	3,778,335.76	3,778,335.76	100.00
Subtotal	<u>722,948,859.81</u>	<u>5,371,253.38</u>	<u>0.74</u>

(3) Change in provision for bad debts

1) Breakdown

Item	Balance at the beginning of the period	Amount changed during the period				Balance at the end of the period
		Provision	Recovery or reversal	Write-off	Other	
Bad debt provision on individual basis	29,913,229.65		-2,837,151.09	-948,783.68		26,127,294.88
Bad debt provision by groups	5,444,677.18	76,621.65		-150,045.45		5,371,253.38
Total	<u>35,357,906.83</u>	<u>76,621.65</u>	<u>-2,837,151.09</u>	<u>-1,098,829.13</u>		<u>31,498,548.26</u>

2) No significant amounts of provision for bad debts recovered or reversed during the period.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Accounts receivable (continued)

(4) Accounts receivable written off during the period

1) Write-off of accounts receivable

Item	Amount written off
Accounts receivable written off	1,098,829.13

2) No significant accounts receivable were written off during the period.

(5) The five largest accounts receivable and contract assets

Company Name	Carrying amount at the end of the period			Percentage of total balance of accounts receivable and contract assets at the end of the period (%)	Bad debt provision for accounts receivable and impairment provision for contract assets
	Accounts Receivable	Contract assets	Subtotal		
Changxing Geely Automobile Components Company Limited	76,122,282.83		76,122,282.83	10.16	68,510.05
Chery Commercial Vehicle (Anhui) Co., Ltd.	64,565,872.77		64,565,872.77	8.62	71,322.16
Chery Automobile Co., Ltd.	58,660,725.08		58,660,725.08	7.83	52,794.65
South East (Fujian) Motor Corporation Ltd.	42,446,731.60		42,446,731.60	5.67	38,202.06
Chery New Energy Automobile Co., Ltd (奇瑞新能源汽车股份有限公司)	35,075,283.30		35,075,283.30	4.68	31,567.75
Subtotal	276,870,895.58		276,870,895.58	36.96	262,396.67

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

4. Financing receivables

(1) Breakdown

Item	Balance at the end of the period	Balance at the end of last year
Bank acceptance bills	199,966,034.43	141,228,798.62
Total	199,966,034.43	141,228,798.62

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

Item	Pledged amount at the end of the period
Bank acceptance bills	124,849,058.40
Subtotal	124,849,058.40

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

Item	Amounts not yet derecognized at the end of the period
Bank acceptance bills	475,822,773.68
Subtotal	475,822,773.68

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

5. Prepayments

(1) Aging analysis

1) Breakdown

Aging	Balance at the end of the period			Book value
	Carrying amount	(%)	Provision for bad debts	
Within 1 year	7,137,748.26	80.55		7,137,748.26
1-2 years	1,250,507.30	14.11		1,250,507.30
2-3 years	210,660.13	2.38		210,660.13
Over 3 years	262,805.06	2.96		262,805.06
Subtotal	<u>8,861,720.75</u>	<u>100.00</u>		<u>8,861,720.75</u>

Aging	Balance at the end of last year			Book value
	Carrying amount	(%)	Provision for bad debts	
Within 1 year	12,784,030.81	93.91		12,784,030.81
1-2 years	492,093.74	3.62		492,093.74
2-3 years	137,572.38	1.01		137,572.38
Over 3 years	198,991.68	1.46		198,991.68
Subtotal	<u>13,612,688.61</u>	<u>100.00</u>		<u>13,612,688.61</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

5. Prepayments (continued)

(2) The five largest prepayments

Name	Carrying amount	Percentage of the total prepayments carrying amount (%)
National Grid Jilin Province Electric Power Supply Co., Ltd. Siping City Electric Power Supply (國網吉林省電力有限公司四平供電公司)	849,795.02	9.59
Zhuji Gaohua Machinery Parts Co., Ltd.	548,326.38	6.19
Hangzhou Baotian Precision Machinery Co., Ltd. (杭州寶田精密機械有限公司)	459,315.70	5.18
Beijing J. I. Industrial Products Trading Co., Ltd.	372,600.00	4.20
Sinopec Marketing Co., Ltd., Zhejiang and Hangzhou Petroleum Branch (中國石化銷售股份有限公司浙江杭州石油分公司)	320,403.85	3.62
Subtotal	<u>2,550,440.95</u>	<u>28.78</u>

6. Other receivables

(1) Classification by nature

Nature of the receivables	Balance at the end of the period	Balance at the end of last year
Security deposits	1,931,096.00	1,856,296.00
Imprest	1,152,480.61	854,303.01
Others	540,093.20	1,919,322.82
Total	<u>3,623,669.81</u>	<u>4,629,921.83</u>

(2) Aging analysis

Age	Balance at the end of the period	Balance at the end of last year
Within 1 year	1,472,607.29	2,782,662.75
1-2 years	1,706,522.98	186,884.95
2-3 years	117,043.50	64,846.25
Over 3 years	327,496.04	1,595,527.88
Total	<u>3,623,669.81</u>	<u>4,629,921.83</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

6. Other receivables (continued)

(3) Bad debt provision

1) Breakdown by types

Types	Balance at the end of the period				Book value
	Carrying amount		Provision for bad debts		
	Amount	(%)	Amount	(%)	
Bad debt provision on individual basis	124,237.64	3.43	124,237.64	100.00	
Provision for bad debt by groups	3,499,432.17	96.57			3,499,432.17
Total	3,623,669.81	100.00	124,237.64	3.43	3,499,432.17

Types	Balance at the end of the last year				Book value
	Carrying amount		Provision for bad debts		
	Amount	(%)	Amount	(%)	
Bad debt provision on individual basis	358,779.64	7.75	358,779.64	100.00	
Provision for bad debt by groups	4,271,142.19	92.25			4,271,142.19
Total	4,629,921.83	100.00	358,779.64	7.75	4,271,142.19

- 2) There are no other receivables with bad debt provision on individual basis at the end of the period
- 3) Other receivables with provision for bad debt by groups

Group	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Deposits receivable	1,931,096.00		
Imprest receivable and other group	1,568,336.17		
Sub-total	3,499,432.17		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

6. Other receivables (continued)

(4) Change in provision for bad debts

1) Breakdown

Item	Stage 1 12-month expected credit loss	Stage 2 lifetime expected credit losses (not credit impaired)	Stage 3 lifetime expected credit losses (credit impaired)	Total
Balance at the beginning of the period			358,779.64	358,779.64
Balance at the beginning of the current period				
- Transfer to stage 2				
- Transfer to stage 3				
- Transfer back to stage 2				
- Transfer back to stage 1				
Provision made during the period				
Recovered or reversed during the period				
Written off during the period			234,542.00	234,542.00
Other changes				
Balance at the end of the period			124,237.64	124,237.64
Provision for bad debts at the end of the period				
Provision (%)			3.43	3.43

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

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

(6) The five largest other receivables

Name	Nature of the receivable	Carrying amount	Aging	Percentage of other receivables carrying amount (%)	Provision for bad debts at the end of the period
Shanghai Intron Electronics Company Limited (上海英恆電子有限公司)	Deposit	1,600,000.00	1-2 years	44.15	
Zheng Zhanbing	Imprest	207,000.00	Within 1 year	5.71	
Zhu Shengfeng	Imprest	180,000.00	Within 1 year	4.97	
Zhu Haifeng	Imprest	109,034.18	Within 1 year, 1-2 years	3.01	
Feng Yongli	Imprest	100,000.00	Over 3 years	2.76	100,000.00
Hangzhou Hanglian Thermal Power Co., Ltd. (杭州杭聯熱電有限公司)	Deposit	100,000.00	Over 3 years	2.76	
Subtotal		2,296,034.18		63.36	100,000.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

7. Inventories

(1) Breakdown

Item	Balance at the end of the period		
	Carrying amount	Provision	Book value
Raw materials	241,459,182.10	19,575,515.40	221,883,666.70
Work-in-progress	18,721,223.87		18,721,223.87
Finished good	244,389,749.91	16,939,722.29	227,450,027.62
Low-value consumables	10,153,309.87		10,153,309.87
Total	<u>514,723,465.75</u>	<u>36,515,237.69</u>	<u>478,208,228.06</u>

Item	Balance at the end of last year		
	Carrying amount	Provision	Book value
Raw materials	231,346,436.21	21,481,561.93	209,864,874.28
Work-in-progress	12,835,066.69		12,835,066.69
Finished good	208,809,968.10	22,086,629.32	186,723,338.78
Low-value consumables	9,502,930.08		9,502,930.08
Total	<u>462,494,401.08</u>	<u>43,568,191.25</u>	<u>418,926,209.83</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

7. Inventories (continued)

(2) Provision

1) Breakdown

Item	Beginning of the period	Increase during the period		Decrease during the period		End of the period
		Provision	Others	Reversal or write-off	Others	
Raw materials	21,481,561.93	7,036,498.69		8,942,545.22		19,575,515.40
Finished goods	22,086,629.32	5,862,992.32		11,009,899.35		16,939,722.29
Sub-total	43,568,191.25	12,899,491.01		19,952,444.57		36,515,237.69

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

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

(Note): The Company took stock of the inventories kept for the customers to whom we have temporarily suspended goods supply due to their financial difficulty (customers for whom bad debt provision for accounts receivable has been made on individual basis as set out in Note 5(1)3 to the financial statements), and made provision for inventory obsolescence for inventories that were not expected to bring benefits through sale or use. The rest of the inventories were measured at the lower of their costs or net realizable value, and provision for inventory obsolescence were made when the net realizable value was lower than the costs.

8. Other current assets

Item	Balance at the end of the period			Balance at the end of last year		
	Carrying amount	Provision for bad debts	Book value	Carrying amount	Provision for bad debts	Book value
Value added tax recoverable	2,336,358.59		2,336,358.59	17,202,931.80		17,202,931.80
Prepaid corporate income tax	250,984.84		250,984.84	558,185.39		558,185.39
Prepaid expenses	857,978.51		857,978.51	577,399.21		577,399.21
Prepaid issuance fees	1,692,954.58		1,692,954.58	609,340.68		609,340.68
Prepaid medical insurance	172,436.89		172,436.89	173,282.61		173,282.61
Total	5,310,713.41		5,310,713.41	19,121,139.69		19,121,139.69

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

9. Investment Property

(1) Breakdown

Item	Buildings	Land use right	Total
Original carrying amount			
Balance at the beginning of the period	183,689,313.98	29,196,075.43	212,885,389.41
Increase during the period			
Decrease during the period	4,521,618.48	383,600.40	4,905,218.88
1) Transfer to fixed assets	4,521,618.48		4,521,618.48
2) Transfer to intangible assets		383,600.40	383,600.40
Balance at the end of the period	<u>179,167,695.50</u>	<u>28,812,475.03</u>	<u>207,980,170.53</u>
Accumulated depreciation and accumulated amortization			
Balance at the beginning of the period	15,777,664.51	5,518,880.62	21,296,545.13
Increase during the period	5,602,977.66	578,806.82	6,181,784.48
1) Provision or amortisation	5,602,977.66	578,806.82	6,181,784.48
Decrease during the period	706,523.09	70,341.32	776,864.41
1) Transfer to fixed assets	706,523.09		706,523.09
2) Transfer to intangible assets		70,341.32	70,341.32
Balance at the end of the period	<u>20,674,119.08</u>	<u>6,027,346.12</u>	<u>26,701,465.20</u>
Carrying amount			
Carrying amount at the end of the period	<u>158,493,576.42</u>	<u>22,785,128.91</u>	<u>181,278,705.33</u>
Carrying amount at the beginning of the period	<u>167,911,649.47</u>	<u>23,677,194.81</u>	<u>191,588,844.28</u>

(2) Information about fixed assets without certificate of title

Item	Carrying amount	Reason for not obtaining certificate of title
The New Shibao Phase 2 plant (let out)	<u>11,039,409.45</u>	Still under process
Sub-total	<u>11,039,409.45</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

10. Fixed assets

(1) Breakdown

Item	Buildings and structures	Equipment	Transportation vehicles	Other office equipment and others	Total
Cost					
Balance at the beginning of the period	365,474,637.07	928,570,498.71	18,466,670.34	29,950,130.49	1,342,461,936.61
Increase during the period	9,372,023.77	113,902,091.50	4,089,896.55	3,420,335.98	130,784,347.80
1) Purchase	38,000.00	7,693,672.34	4,089,896.55	3,420,335.98	15,241,904.87
2) Transfer from construction in progress	4,812,405.29	106,208,419.16			111,020,824.45
3) Transfer from investment property	4,521,618.48				4,521,618.48
Decrease during the period	194,546.00	24,649,402.47	1,714,799.39	22,285.91	26,581,033.77
1) Disposal	194,546.00	24,649,402.47	1,714,799.39	22,285.91	26,581,033.77
Balance at the end of the period	374,652,114.84	1,017,823,187.74	20,841,767.50	33,348,180.56	1,446,665,250.64
Accumulated depreciation					
Balance at the beginning of the period	100,548,185.08	571,296,483.39	11,235,104.21	20,558,416.49	703,638,189.17
Increase during the period	11,643,857.04	64,483,192.67	2,373,967.27	3,604,049.49	82,105,066.47
1) Provision	10,937,333.95	64,483,192.67	2,373,967.27	3,604,049.49	81,398,543.38
2) Transfer from investment property	706,523.09				706,523.09
Decrease during the period	120,652.12	21,183,689.87	1,130,226.85	19,836.06	22,454,404.90
1) Disposal	120,652.12	21,183,689.87	1,130,226.85	19,836.06	22,454,404.90
Balance at the end of the period	112,071,390.00	614,595,986.19	12,478,844.63	24,142,629.92	763,288,850.74
Provision					
Balance at the beginning of the period	825,717.39	245,524.61			1,071,242.00
Increase during the period					
Decrease during the period		245,524.61			245,524.61
1) Disposal		245,524.61			245,524.61
Balance at the end of the period	825,717.39				825,717.39
Book value					
Book value at the end of the period	261,755,007.45	403,227,201.55	8,362,922.87	9,205,550.64	682,550,682.51
Book value at the beginning of the period	264,100,734.60	357,028,490.71	7,231,566.13	9,391,714.00	637,752,505.44

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

10. Fixed assets (continued)

(2) Information about fixed assets without certificate of title

Project	Carrying amount	Reason for not obtaining certificate of title
The Siping R&D building and complex plant	18,423,449.63	Still under process
The New Shibao Phase 2 plant (self use)	9,535,486.17	Still under process
Sub-total	<u>27,958,935.80</u>	

11. Construction in progress

(1) Breakdown

Project name	Balance at the end of the period		
	Carrying amount	Provision	Book value
The annual output of electric power steering for new energy vehicles will increase by 200,000 units Technical transformation project			
EPS products upgrading and expansion project	11,714,148.51		11,714,148.51
The annual production of 600,000 automotive intelligent steering system technology transformation project	195,208.85		195,208.85
The automotive intelligent steering system and key components development project	1,584,747.43		1,584,747.43
Other sundry projects	15,534,221.43		15,534,221.43
Total	<u>29,028,326.22</u>		<u>29,028,326.22</u>

Project name	Balance at the end of last year		
	Carrying amount	Provision	Book value
The annual output of electric power steering for new energy vehicles will increase by 200,000 units Technical transformation project	22,658,761.05		22,658,761.05
EPS products upgrading and expansion project	14,405,830.16		14,405,830.16
The annual production of 600,000 automotive intelligent steering system technology transformation project			
The automotive intelligent steering system and key components development project			
Other sundry projects	36,818,768.14		36,818,768.14
Total	<u>73,883,359.35</u>		<u>73,883,359.35</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

11. Construction in progress (continued)

(2) Movement during the period

Project name	Budget (RMB0,000)	Balance at the beginning of the period	Increase during the period	Transfer to fixed assets	Balance at the end of the period
The annual output of electric power steering for new energy vehicles will increase by 200,000 units Technical transformation project	5,000.00	22,658,761.05	5,135,970.28	27,794,731.33	
EPS products upgrading and expansion project	4,000.00	14,405,830.16	11,163,290.60	13,854,972.25	11,714,148.51
The annual production of 600,000 automotive intelligent steering system technology transformation project	30,000.00		10,370,050.55	10,174,841.70	195,208.85
The automotive intelligent steering system and key components development project	50,000.00		14,172,229.24	12,587,481.81	1,584,747.43
Subtotal		37,064,591.21	40,841,540.67	64,412,027.09	13,494,104.79

Project name	Percentage of accumulative invested amount to budget (%)	Construction progress (%)	Accumulated amount of capitalized interests	Amount of capitalized interests during the period	Interest rate of capitalized interests during the period (%)	Source of fund
The annual output of electric power steering for new energy vehicles will increase by 200,000 units Technical transformation project	81.39	100.00				Internal fund
EPS products upgrading and expansion project	90.04	90.00				Internal fund
The annual production of 600,000 automotive intelligent steering system technology transformation project	3.91	4.00				Internal fund/ fund raising
The automotive intelligent steering system and key components development project	3.18	3.00				Internal fund/ fund raising
Subtotal						

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

12. Intangible assets

(1) Breakdown

Item	Land use right	Patent	Non-patented technology	Management software	Total
Cost					
Balance at the beginning of the period	68,816,519.14	1,281,666.67	48,696,372.12	16,213,505.34	135,008,063.27
Increase during the period	1,835,900.40			4,674,537.46	6,510,437.86
1) Purchase	1,452,300.00			4,674,537.46	6,126,837.46
2) Transfer from investment property	383,600.40				383,600.40
Balance at the end of the period	70,652,419.54	1,281,666.67	48,696,372.12	20,888,042.80	141,518,501.13
Accumulated amortization					
Balance at the beginning of the period	19,848,612.30	1,281,666.67	48,696,372.12	8,747,389.80	78,574,040.89
Increase during the period	1,427,710.54			2,252,576.30	3,680,286.84
1) Provision	1,357,369.22			2,252,576.30	3,609,945.52
2) Transfer from investment property	70,341.32				70,341.32
Balance at the end of the period	21,276,322.84	1,281,666.67	48,696,372.12	10,999,966.10	82,254,327.73
Book value					
Book value at the end of the period	49,376,096.70			9,888,076.70	59,264,173.40
Book value at the beginning of the period	48,967,906.84			7,466,115.54	56,434,022.38

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

Item	Balance at the end of the period (Note)	Balance at the end of last year (Note)
Outside Hong Kong including: interim lease	72,161,225.61	72,645,101.65
	72,161,225.61	72,645,101.65
Sub-total	72,161,225.61	72,645,101.65

(Note) Including the book value of land use rights in investment property

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

12. Intangible assets (continued)

(3) Information about land use rights without certificate of title

Item	Carrying amount	Reason for not obtaining certificate of title
Lot No. SP2023-22	1,447,459.00	Still under process
Subtotal	1,447,459.00	

13. Goodwill

(1) Breakdown

Name of the investee or item becomes goodwill	Balance at the end of the period			Balance at the end of last year		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Wuhu Sterling Steering System Co., Ltd	4,694,482.34	4,694,482.34		4,694,482.34	4,694,482.34	
Total	4,694,482.34	4,694,482.34		4,694,482.34	4,694,482.34	

(2) Original carrying amount of goodwill

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

(3) Goodwill impairment provision

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

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

14. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets which are not offset

Item	Balance at the end of the period		Balance at the end of last year	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	37,267,947.33	6,753,675.40	42,632,860.47	8,059,692.97
Profits not realized from intra-group transactions	7,002,271.31	1,071,414.55	5,691,642.03	853,746.30
Accrued Warranty expenses	29,760,594.60	5,496,961.25	28,963,502.58	4,804,755.09
Deferred income from government grant	9,302,466.28	1,395,369.94	6,016,055.70	902,408.36
Changes in fair value of financial assets held for trading	1,099,963.32	164,994.50		
Total	<u>84,433,242.84</u>	<u>14,882,415.64</u>	<u>83,304,060.78</u>	<u>14,620,602.72</u>

(2) Deferred income tax liabilities which are not offset

Item	Balance at the end of the period		Balance at the end of last year	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Asset valuation surplus arising from business combination not under the common control	7,856,402.86	1,964,100.71	8,488,419.46	2,122,104.86
Changes in fair value of financial assets held for trading			829,009.43	124,351.41
Depreciation of fixed assets	20,359,241.71	3,053,886.26	22,481,356.41	3,372,203.46
Total	<u>28,215,644.57</u>	<u>5,017,986.97</u>	<u>31,798,785.30</u>	<u>5,618,659.73</u>

Taxable temporary differences include:

- There are taxable temporary differences arising from fair value adjustment on various identifiable assets and liabilities in acquiring Wuhu Sterling Steering System Co., Ltd through business combination not under the common control in stages during 2013. The balance as at the end of 2022 was RMB8,488,419.46. During the period, taxable temporary differences of the reversal of fair value amortization was RMB632,016.60. As at 31 December 2023, the taxable temporary differences arising from such fair value adjustment amounted to RMB7,856,402.86.
- Hangzhou Shibao Auto Steering Gear Co., Ltd, a subsidiary of the Company, enjoys the high-tech enterprise policy. The one-off deduction of depreciation of fixed assets results in taxable temporary differences, which amounted to RMB22,481,356.41 at the end of 2022, and the provision for depreciation reversal during the period results in taxable temporary differences of RMB2,122,114.70. As of 31 December 2023, the taxable temporary differences arising from the depreciation of such fixed assets amounted to RMB20,359,241.71.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

14. Deferred income tax assets and deferred income tax liabilities (continued)

(3) Deferred income tax assets or liabilities shown in the net amount after offset

Item	Balance at the end of the period		Balance at the end of last year	
	Offset amount of deferred tax assets against deferred tax liabilities	Balance of deferred tax assets or liabilities after offset	Offset amount of deferred tax assets against deferred tax liabilities	Balance of deferred tax assets or liabilities after offset
Deferred tax assets	3,053,886.26	11,828,529.38		14,620,602.72
Deferred tax liabilities	<u>3,053,886.26</u>	<u>1,964,100.71</u>		<u>5,618,659.73</u>

(4) Analysis of unrecognized deferred income tax assets

Item	Balance at the end of the period	Balance at the end of last year
Deductible temporary difference	38,906,953.03	45,448,425.37
Deductible loss	<u>361,862,457.40</u>	<u>392,141,782.25</u>
Sub-total	<u>400,769,410.43</u>	<u>437,590,207.62</u>

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

Year	Balance at the end of the period	Balance at the end of last year
2023		5,922,535.15
2024	38,999,341.66	45,059,784.08
2025	11,308,503.24	11,308,503.24
2026	27,556,910.89	27,556,910.89
2027	71,756,345.61	95,673,443.17
2028	47,463,804.01	15,613,295.92
2029	52,307,463.52	69,355,112.52
2030	37,149,033.14	37,870,257.32
2031	19,644,290.20	24,408,922.80
2032	48,197,268.15	59,373,017.16
2033	7,479,496.98	
Total	<u>361,862,457.40</u>	<u>392,141,782.25</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

15. Other non-current assets

Item	Balance at the end of the period			Balance at the end of last year		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Prepaid for purchase of long term assets	4,569,777.98		4,569,777.98	15,045,732.28		15,045,732.28
Total	4,569,777.98		4,569,777.98	15,045,732.28		15,045,732.28

16. Assets with restrictions in ownership or use right

(1) Restricted assets at the end of the period

Item	Balance at the end of the period	Carrying amount at the end of the period	Restricted type	Reason for restriction
Monetary funds	15,000.00	15,000.00	Freeze	Amount frozen by ETC
Monetary funds	38,633,427.68	38,633,427.68	Pledges	Security deposits of the notes pool
Financing receivables	124,849,058.40	124,849,058.40	Pledges	Pledge for the notes pool
Fixed assets	58,869,107.34	42,659,530.59	Security	Pledge for credit of borrowings and comprehensive credit
Intangible assets	27,671,946.84	19,765,676.31	Security	Pledge for credit of borrowings and comprehensive credit
Total	250,039,788.04	225,923,940.76		

(2) Restricted assets at the end of last year

Item	Balance at the end of last year	Carrying amount at the end of last year	Restricted type	Reason for restriction
Monetary funds	16,000.00	16,000.00	Freeze	Amount frozen by ETC
Monetary funds	76,565,438.46	76,565,438.46	Pledges	Security deposits of the notes pool
Financing receivables	71,613,599.48	71,613,599.48	Pledges	Pledge for the notes pool
Fixed assets	67,289,375.98	47,242,652.11	Security	Pledge for credit of borrowings and comprehensive credit
Intangible assets	30,662,708.03	22,216,875.90	Security	Pledge for credit of borrowings and comprehensive credit
Investment property	1,450,938.01	926,182.10	Security	Pledge for comprehensive credit
Total	247,598,236.60	218,580,924.69		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

17. Short-term borrowings

Item	Balance at the end of the period	Balance at the end of last year
Guaranteed loans (Note)	68,068,000.00	83,094,013.88
Credit loans	35,014,006.14	20,021,388.90
Mortgage	44,738,491.67	50,048,888.89
Total	147,820,497.81	153,164,291.67

(Note): Among the closing balance, the guaranteed loans with a principal of RMB68 million was guaranteed by Zhang Shi Quan.

18. Notes payable

(1) Breakdown

Item	Balance at the end of the period	Balance at the end of last year
Bank acceptance bill	191,745,893.38	200,181,609.95
Total	191,745,893.38	200,181,609.95

(2) There are no mature but unpaid bill payables at the end of the period.

19. Accounts payable

(1) Breakdown

Item	Balance at the end of the period	Balance at the end of last year
Operating purchase payable	634,232,989.99	463,418,690.40
Long-term assets purchase payable	18,231,255.79	29,433,079.90
Total	652,464,245.78	492,851,770.30

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

19. Accounts payable (continued)

(2) Aging analysis

Age	Balance at the end of the period	Balance at the end of last year
Within 1 year	624,256,741.61	469,522,225.31
1-2 years	15,349,059.78	10,721,731.66
2-3 years	4,447,245.72	5,420,313.64
Over 3 years	8,411,198.67	7,187,499.69
Sub-total	652,464,245.78	492,851,770.30

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

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

20. Receipts in advance

(1) Breakdown

Item	Balance at the end of the period	Balance at the end of last year
Receipts in advance from land and house rent	9,292,437.66	10,369,809.24
Total	9,292,437.66	10,369,809.24

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

21. Contract liabilities

(1) Breakdown

Item	Balance at the end of the period	Balance at the end of last year
Receipts in advance from sale of commodities	18,649,684.46	6,685,985.59
Total	18,649,684.46	6,685,985.59

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

22. Staff costs payable

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Short-term remuneration	23,789,114.84	230,273,853.94	226,147,531.44	27,915,437.34
Post-employment benefits — established withdrawal and deposit plan	1,192,449.78	15,796,566.57	16,173,718.84	815,297.51
Total	<u>24,981,564.62</u>	<u>246,070,420.51</u>	<u>242,321,250.28</u>	<u>28,730,734.85</u>

(2) Breakdown of short-term remuneration

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Salaries, bonus, allowances and subsidies	23,260,884.01	201,261,067.44	197,330,121.35	27,191,830.10
Staff welfare (Note)	—	13,322,435.31	13,322,435.31	—
Social insurance	325,984.21	9,025,207.77	8,811,931.56	539,260.42
Including: Medical insurance	287,353.73	8,527,174.85	8,300,646.98	513,881.60
Work injury insurance	38,630.48	498,032.92	511,284.58	25,378.82
Housing funds	63,618.00	4,217,849.00	4,215,738.00	65,729.00
Labour union funds and employee education funds	138,628.62	2,447,294.42	2,467,305.22	118,617.82
Sub-total	<u>23,789,114.84</u>	<u>230,273,853.94</u>	<u>226,147,531.44</u>	<u>27,915,437.34</u>

(Note): Non-monetary benefits during the period RMB1,204,904.73 are all corresponding provision made on buildings and other assets provided to employee to use free of charge with an amount of RMB1,204,904.73.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

22. Staff costs payable (continued)

(3) Breakdown of established withdrawal and deposit plan

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Basic pension insurance	1,144,841.28	15,228,241.21	15,589,001.20	784,081.29
Unemployment insurance	47,608.50	568,325.36	584,717.64	31,216.22
Sub-total	<u>1,192,449.78</u>	<u>15,796,566.57</u>	<u>16,173,718.84</u>	<u>815,297.51</u>

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

(4) Other statements

The Group had no forfeited contributions (i.e. contributions that can be handled by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions). As at 31 December 2023, the Group had no forfeited contributions available to reduce the existing level of contributions.

23. Tax payable

Item	Balance at the end of the period	Balance at the end of last year
Value added tax	797,775.95	7,242,178.25
Withhold of individual income tax	936,910.98	392,856.37
Urban maintenance and construction tax	482,196.79	589,982.28
Property tax	3,159,199.13	217,898.23
Land use tax	1,433,600.36	1,228,705.90
Others	897,113.66	840,017.28
Total	<u>7,706,796.87</u>	<u>10,511,638.31</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

24. Other payables

(1) Breakdown

Item	Balance at the end of the period	Balance at the end of last year
Deposits	2,235,200.00	2,118,755.00
Others	599,068.68	1,217,752.84
Total	2,834,268.68	3,336,507.84

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

25. Non-current liabilities due within one year

Item	Balance at the end of the period	Balance at the end of last year
Long-term borrowings due within one year	25,084,088.74	
Total	25,084,088.74	

26. Other current liabilities

Item	Balance at the end of the period	Balance at the end of last year
Accrued expenses	38,282,398.28	36,255,355.03
Amounts to be transferred to output tax	623,046.68	527,954.18
Total	38,905,444.96	36,783,309.21

27. Long-term borrowings

(1) Breakdown

Item	Balance at the end of the period	Balance at the end of last year
Credit loan	34,836,594.99	35,016,783.33
Long-term borrowings		8,800,000.00
Total	34,836,594.99	43,816,783.33

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

27. Long-term borrowings (continued)

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

Item	Balance at the end of the period (Note)	Balance at the end of last year
Current or within 1 year	25,084,088.74	
1-2 years	34,836,594.99	
2-5 years		43,816,783.33
Over 5 years		
Sub-total	59,920,683.73	43,816,783.33
Including: Long-term loans due within 1 year	25,084,088.74	
Long-term loans due over 1 year	34,836,594.99	43,816,783.33

(Note): Including the amount of long-term loans due within one year among non-current liabilities due within one year.

28. Deferred income

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Reason
Government grants	28,083,266.73	15,176,200.00	10,579,011.51	32,680,455.22	Related to assets
Total	28,083,266.73	15,176,200.00	10,579,011.51	32,680,455.22	

29. Share capital

Item	Balance at the beginning of the period	Increase/-decrease during the period				Sub-total	Balance at the end of the period
		Issuance of new shares	Bonus shares	Transfer from reserves	Others		
Shares with selling restrictions							
A Shares	19,799,310.00						19,799,310.00
H Shares							
Shares without selling restrictions							
A Shares	553,060,327.00						553,060,327.00
H Shares	216,785,000.00						216,785,000.00
Total	789,644,637.00						789,644,637.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

30. Capital reserve

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

31. Special reserve

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Production safety costs		9,028,662.67	9,028,662.67	
Total		9,028,662.67	9,028,662.67	

(2) Other description

During the period, the increase or decrease in special reserves was due to the provision and utilization of production safety costs by the Company and its subsidiaries.

32. Surplus reserve

(1) Breakdown

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory reserve funds	137,936,874.81	1,322,460.24		139,259,335.05
Total	137,936,874.81	1,322,460.24		139,259,335.05

(2) Other description

According to the Articles of Association, 10% of the net profit attributable to the Parent was appropriated to the statutory surplus reserve totaling RMB1,322,460.24 by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

33. Retained earnings

Item	Balance for the current period	Balance for the corresponding period last year
Retained earnings at the beginning of the year	282,745,271.10	268,342,103.84
Add: Net profit attributable to equity holders of the Parent	77,204,342.79	15,823,592.47
Less: Transfer to statutory reserve funds	1,322,460.24	1,420,425.21
Retained earnings at the end of the period	358,627,153.65	282,745,271.10

(2) Notes to the Consolidated Income Statement

1. Revenue/cost of sales

(1) Breakdown

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Revenue from main business	1,740,240,817.04	1,419,496,001.72	1,328,037,578.29	1,096,514,461.55
Revenue from other business	79,201,404.48	24,766,097.76	58,357,988.09	20,877,832.70
Total	1,819,442,221.52	1,444,262,099.48	1,386,395,566.38	1,117,392,294.25
Including: Revenue from contracts with customers	1,798,692,243.26	1,438,080,315.00	1,364,106,924.55	1,110,992,989.42

(2) Breakdown of revenue

1) Disaggregation of revenue from contracts with customers by types of goods or services

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Steering system and parts	1,679,175,475.94	1,382,743,031.49	1,237,045,742.62	1,033,125,531.65
Parts and others	61,065,341.10	36,752,970.23	90,991,835.67	63,388,929.90
Others	58,451,426.22	18,584,313.28	36,069,346.26	14,478,527.87
Subtotal	1,798,692,243.26	1,438,080,315.00	1,364,106,924.55	1,110,992,989.42

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

1. Revenue/cost of sales (continued)

(2) Breakdown of revenue (continued)

- 2) Disaggregation of revenue from contracts with customers by geographical areas of operations

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Domestic	1,700,989,823.68	1,395,424,545.76	1,245,268,837.86	1,036,294,474.34
Abroad	97,702,419.58	42,655,769.24	118,838,086.69	74,698,515.08
Subtotal	1,798,692,243.26	1,438,080,315.00	1,364,106,924.55	1,110,992,989.42

- 3) Disaggregation of revenue from contracts with customers by timing of transfer of goods or services

Item	Balance for the current period	Balance for the corresponding period last year
Revenue recognized at a point in time	1,798,692,243.26	1,364,106,924.55
Subtotal	1,798,692,243.26	1,364,106,924.55

(3) Performance obligation

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

- (4) The revenue of RMB5,321,890.56 recognized for the period was included in the book value of contract liabilities at the beginning of the period.

2. Business taxes and surcharges

Item	Balance for the current period	Balance for the corresponding period last year
Urban maintenance and construction tax	1,974,932.42	2,062,254.33
Education surcharge	854,327.24	906,021.57
Local education surcharge	599,246.11	607,874.93
Stamp duty	1,391,349.43	1,063,339.35
Real estate tax	5,269,567.10	1,785,565.70
Land use tax	2,599,036.17	2,739,041.84
Vehicles and vessels use tax	21,638.95	21,012.53
Environmental protection tax	8,038.64	3,203.01
Total	12,718,136.06	9,188,313.26

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Selling expenses

Item	Balance for the current period	Balance for the corresponding period last year
Transportation and storage cost	3,878,072.08	4,479,854.58
Warranty fee	23,405,044.93	19,032,417.83
Wages, welfare and bonuses	10,122,847.78	10,001,252.34
Agency service fee	13,532,212.31	6,557,883.05
Travelling expenses	1,484,715.29	1,427,223.98
Entertainment charge	6,806,967.64	5,190,833.81
Depreciation of fixed assets	125,524.09	82,217.08
Others	3,793,655.66	5,271,800.10
Total	63,149,039.78	52,043,482.77

4. General and administrative expenses

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	57,708,250.50	50,900,484.89
Office cost	10,871,965.21	10,047,294.38
Professional service fee	6,441,194.90	6,297,536.95
Depreciation of fixed assets	6,715,683.76	5,480,396.22
Amortization of intangible assets	2,292,217.02	2,165,160.82
Other taxation	254,201.87	245,948.47
Travelling expenses	4,954,743.16	3,180,912.80
Entertainment charge	11,663,529.83	7,213,229.31
Others	8,406,093.89	2,291,743.69
Total	109,307,880.14	87,822,707.53

(2) The general and administrative expenses for the current year included auditor's remuneration of RMB724,528.30 (2022: RMB724,528.30).

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

5. Research and development expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	59,382,618.00	48,246,648.72
Direct investment	36,613,870.86	24,180,621.70
Energy costs	2,652,704.02	2,294,211.98
Depreciation of fixed assets	10,526,254.29	11,627,920.71
Amortization of intangible assets	695,997.10	516,446.99
Others	8,325,506.78	12,802,727.75
Total	118,196,951.05	99,668,577.85

6. Financial expenses

Item	Balance for the current period	Balance for the corresponding period last year
Interest expenses	7,273,803.75	5,346,190.55
Interest income	-1,714,729.11	-949,325.73
Exchange gains and losses	-248,964.76	187,379.32
Other	762,122.61	267,517.15
Total	6,072,232.49	4,851,761.29

7. Other gains

Item	Balance for this period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Government grants related to assets	10,579,011.51	8,838,232.90	1,890,000.00
Government grants related to income	8,308,381.67	10,002,361.74	7,479,964.82
Refund of the handling fees for withholding and payment of individual income tax	63,098.80	63,371.54	
Tax relief	921,235.74	83,412.65	
VAT Super Deduction	10,420,075.21		
Total	30,291,802.93	18,987,378.83	9,369,964.82

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

8. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Loss on discount of financing receivables	-827,235.69	-476,210.17
Investment gains from disposal of held-for-trading financial assets	2,313,191.54	2,275,060.98
Total	1,485,955.85	1,798,850.81

9. Gains from fair value change

Item	Balance for the current period	Balance for the corresponding period last year
Held-for-trading financial assets	-265,698.17	-1,141,664.33
Including: Financial assets at fair value through profit or loss	-265,698.17	-1,141,664.33
Total	-265,698.17	-1,141,664.33

10. Credit impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Bad debt losses	2,760,529.44	-1,589,469.25
Total	2,760,529.44	-1,589,469.25

11. Asset impairment losses

Item	Balance for the current period	Balance for the corresponding period last year
Provision for inventories losses	-12,899,491.01	-19,975,166.26
Total	-12,899,491.01	-19,975,166.26

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

12. Gains from disposal of assets

Item	Balance for this period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Gains from disposal of fixed assets	-473,679.45	5,113,339.09	-473,679.45
Total	-473,679.45	5,113,339.09	-473,679.45

13. Non-operating income

Item	Balance for this period	Balance for the same period last year	Amount recognized as non-recurring gain and loss during the period
Transfer from payments not incurred		321,054.08	
Award income	169,900.00		169,900.00
Penalty income	2,000.00	300.00	2,000.00
Others	111,514.71	61,258.01	111,514.71
Total	283,414.71	382,612.09	283,414.71

14. Non-operating expenses

Item	Balance for the current period	Balance for the corresponding period last year	Amount recognized as non-recurring gain and loss during the period
Local water conservancy construction fund	462,560.53	203,942.94	
Losses on write-off of non-current assets	2,000,008.65	68,750.98	2,000,008.65
Late payment penalty for tax	84.26	44,140.10	84.26
Donation expenses	300,000.00		300,000.00
Others	152,917.19	54,469.68	152,917.19
Total	2,915,570.63	371,303.70	2,453,010.10

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

15. Income tax expenses

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
Deferred income tax	-862,485.68	369,207.41
Total	-862,485.68	369,207.41

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

Item	Balance for the current period	Balance for the corresponding period last year
Total profit	84,003,146.19	18,633,006.71
Income tax expenses based on tax rate of the parent company	12,600,471.93	2,794,951.01
Effects of different applicable tax rates on subsidiaries	-2,218,028.96	-6,444,958.29
Effects of including and excluding R&D expenses	-19,257,004.70	-17,158,919.32
Impact of additional deduction of newly purchased fixed assets by high-tech enterprises		-3,373,464.37
Effects of non-deductible costs, expenses and losses	1,282,874.69	2,299,518.17
The effect of utilization of deductible loss arising from deferred income tax assets not previously recognized	-2,183,147.19	-970,636.35
The effect of deductible temporary difference arising from unrecognized deferred income tax assets or deductible loss during the period	8,912,348.55	23,222,716.56
Income tax expenses	-862,485.68	369,207.41

(3) Other statements

No provision for Hong Kong profits tax has been made (2022: Nil) as the Company and its other subsidiaries had no profits generated in or arising from Hong Kong in 2023.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(3) Notes to the Consolidated Statement of Cash Flows

1. Cash received from or paid for significant investing activities

(1) Cash received from investment

Item	Balance for the current period	Balance for the corresponding period last year
Redemption of bank wealth management products	346,160,000.00	230,503,429.96
Disposal of stock investment		1,561,130.37
Subtotal	346,160,000.00	232,064,560.33

(2) Cash paid for investment

Item	Balance for the current period	Balance for the corresponding period last year
Purchase of bank wealth management products	338,000,000.00	282,460,000.00
Subtotal	338,000,000.00	282,460,000.00

2. Other cash received or paid relating to operating activities, investing activities and financing activities

(1) Cash received in relation to operating activities

Item	Balance for the current period	Balance for the corresponding period last year
Recovery of deposits including banker's acceptances	66,563,200.57	32,190,188.53
Receipt of government grants	13,856,164.82	11,629,829.74
Receipt of security deposit	165,700.00	863,000.00
House rent received	21,267,822.04	19,675,933.33
Interest income received	1,714,729.11	949,325.73
Release restriction on frozen bank deposits		11,030,434.74
Others	3,704,077.00	6,943,446.74
Total	107,271,693.54	83,282,158.81

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

2. Other cash received or paid relating to operating activities, investing activities and financing activities (continued)

(2) Cash paid in relation to other operating activities

Item	Balance for the current period	Balance for the corresponding period last year
Cash paid as selling expenses	28,150,631.42	30,044,406.42
Cash paid as general and administrative expenses	39,719,010.72	24,191,399.53
Cash paid as research and development expenses	13,141,186.21	12,953,767.34
Payment of security deposits	274,055.00	1,908,000.00
Payment of deposits including banker's acceptances	28,631,189.79	66,565,438.46
Others	5,140,714.23	4,201,868.77
Total	115,056,787.37	139,864,880.52

(3) Cash paid in relation to other financing related activities

Item	Balance for the current period	Balance for the corresponding period last year
Payment of relevant expenditure for issuing shares to particular participants	1,126,406.36	627,340.68
Total	1,126,406.36	627,340.68

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

3. Supplemental information on the statement of cash flows

Supplemental information	Balance for the current period	Balance for the corresponding period last year
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	84,865,631.87	18,263,799.30
Add: Provision for impairment to assets	10,138,961.57	21,564,635.51
Depreciation of fixed assets, oil and gas assets and production	87,001,521.04	79,100,732.92
Depreciation of right-of-use assets		
Amortization of intangible assets	4,188,752.34	3,770,985.69
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	473,679.45	-5,113,339.09
Losses on write-off of fixed assets ("-" for gains)	2,000,008.65	68,750.98
Losses on changes of fair value ("-" for gains)	265,698.17	1,141,664.33
Financial expenses ("-" for gains)	7,024,838.99	5,533,569.87
Investment losses ("-" for gains)	-1,485,955.85	-1,798,850.81
Decrease in deferred income tax assets ("-" for increase)	2,792,073.34	-2,773,712.39
Increase in deferred income tax liabilities ("-" for decrease)	-3,654,559.02	3,142,919.80
Decrease in inventories ("-" for increase)	-81,401,811.54	-109,908,758.81
Decrease in operational receivables ("-" for increase)	-334,911,458.97	-163,470,383.73
Increase in operational payables ("-" for decrease)	225,899,335.43	261,349,267.24
Others		
Net cash flows from operating activities	<u>3,196,715.47</u>	<u>110,871,280.81</u>
2) Significant investment and financing activities not related to cash receipts and payments:		
Debt transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3) Net change in cash and cash equivalents:		
Cash at the end of the period	119,831,809.48	155,644,045.68
Less: Cash at the beginning of the period	155,644,045.68	142,613,257.83
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	<u>-35,812,236.20</u>	<u>13,030,787.85</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

4. Cash and cash equivalents

(1) Breakdown

Item	Balance for the current period	Balance for the corresponding period last year
1) Cash	119,831,809.48	155,644,045.68
Including: Cash on hand	111,308.40	57,616.75
Bank deposit readily available	119,720,501.08	155,586,428.93
Other monetary fund readily available		
2) Cash equivalents		
Including: Bond investment due in three months		
3) Closing balance of cash and cash equivalents	119,831,809.48	155,644,045.68
Including: Restricted cash and cash equivalents of parent or group subsidiaries		

(2) Monetary funds not classified as cash and cash equivalents

Item	Balance at the end of the period	Balance at the end of last year	Reasons for not classified as cash and cash equivalents
Bank deposits	1,247.78	176.64	Suspended account deposits
Bank deposits	15,000.00	16,000.00	Amount frozen by ETC
Other monetary funds	38,633,427.68	76,565,438.46	Security deposits of the notes pool
Subtotal	38,649,675.46	76,581,615.10	

5. Changes in liabilities related to financing activities

Item	Balance at the beginning of the period	Increase during the period		Decrease during the period		Balance at the end of the period
		Cash changes	Non-cash changes	Cash changes	Non-cash changes	
Short-term borrowings	153,164,291.67	147,700,000.00	5,947,240.02	158,991,033.88		147,820,497.81
Long-term borrowings (including long-term borrowings due within one year)	43,816,783.33	25,000,000.00	1,326,563.73	1,422,663.33	8,800,000.00	59,920,683.73
Subtotal	<u>196,981,075.00</u>	<u>172,700,000.00</u>	<u>7,273,803.75</u>	<u>160,413,697.21</u>	<u>8,800,000.00</u>	<u>207,741,181.54</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

6. Major activities that do not involve cash receipts and payments

The transferred endorsed commercial bill which do not involve in cash receipt and payment

Item	Balance for this period	Balance for the corresponding period last year
Transferred endorsed commercial bill	830,703,915.95	519,059,821.81
Including: Bills payable	811,781,134.30	494,479,897.61
Payment for the purchase of long-term assets such as fixed assets	18,922,781.65	24,579,924.20

(4) Others

1. Monetary items in foreign currencies

Item	Foreign currency balance at the end of the period	Exchange rate	Balance translated into RMB at the end of the period
Monetary funds			4,379,738.30
Including: US Dollar	146,755.39	7.0827	1,039,424.40
Euro	424,215.80	7.8592	3,333,996.82
Hong Kong Dollar	6,970.80	0.90622	6,317.08
Trade receivables			681,115.44
Including: US Dollar	45,116.47	7.0827	319,546.42
Euro	46,005.83	7.8592	361,569.02

2. Leases

(1) Company as a lessee

- For details of the Company's accounting policies for short-term leases and low-value asset leases, see Note 3(28) to these financial statements. The amount of short-term lease expenses and low-value asset lease expenses through profit or loss for the period are as follows:

Item	Amounts for the period	Amounts for the same period of last year
Short-term lease expenses	943,774.00	1,342,812.00
Low-value assets lease expenses (other than short-term leases)		
Total	943,774.00	1,342,812.00

- Profit or loss and cash flows related to the lease for the period

Item	Amounts for the period	Amounts for the same period of last year
Total cash outflow related to the lease	910,067.90	1,388,598.00

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

2. Leases (continued)

(2) Company as a lessor

Operating leases

1) Lease income

Item	Amounts for the period	Amounts for the same period of last year
Lease income	20,749,978.26	22,288,641.83

Including: Income relating to variable lease payments not included in the measurement of the lease liability

2) Assets under operating leases

Item	Balance at the end of the period	balance at the end of last year
Investment property	181,278,705.33	191,588,844.28
Sub-total	181,278,705.33	191,588,844.28

3) Information on the Company's investment properties is as follows:

Asset name	Address	Title no.	Usage	Planned time for holding	Whether permanent title or not
Plant, staff dormitory and land use rights	No. 2290 Hehua South Street, Choujiang Street, Yiwu, Zhejiang	Zhe (2020) Yiwu Real Estate Property No.0035803	Factory, dormitory	Long-term	No
New plant	No. 229 (South) Street Baiyang Street No. 19, Economic and Technology Development Zone, Hangzhou, Zhejiang	The title certificate is pending	Factory	Long-term	No
Land use rights	No. 18 Longshan Road, Wuhu District, Pilot Free Trade Zone, Anhui	Wu Kai Guo Yong (2005) No.061	Premise for product deposit	Long-term	No

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(4) Others (continued)

2. Leases (continued)

(2) Company as a lessor (continued)

Operating leases (continued)

4) Undiscounted lease payments to be received arising from non-cancellable leases based on the lease contract signed with lessee

Remaining service life	Balance at the end of the period	Balance at the end of last year
Within one year	21,777,006.00	25,276,100.00
1-2 years	20,377,426.00	24,444,100.00
2-3 years	19,919,238.30	22,609,100.00
3-4 years	19,844,238.30	21,805,305.00
4-5 years	19,769,238.30	21,730,305.00
Over 5 years		21,655,305.00
Total	101,687,146.90	137,520,215.00

3. Interest expenses

Item	During the period	Corresponding period of the previous year
Interest expenses	7,273,803.75	5,346,190.55
Less: Capitalized interests		
Finance cost – interest expenses	7,273,803.75	5,346,190.55

6. RESEARCH AND DEVELOPMENT EXPENSES

Item	Balance for the current period	Balance for the corresponding period of last year
Wages, welfare and bonuses	59,382,618.00	48,246,648.72
Direct investment	36,613,870.86	24,180,621.70
Energy costs	2,652,704.02	2,294,211.98
Depreciation of fixed assets	10,526,254.29	11,627,920.71
Amortization of intangible assets	695,997.10	516,446.99
Others	8,325,506.78	12,802,727.75
Total	118,196,951.05	99,668,577.85
Including: Expense of R&D investment	118,196,951.05	99,668,577.85
Capitalization of R&D investment		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

7. OWNER'S EQUITY IN OTHER ENTITIES

(1) Particulars of subsidiaries

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

2. General information of subsidiaries

Name of subsidiary	Principal place of business	Place of registration	Nature of business	Kind of legal entity	Registered capital	Percentage of shareholding (%)		Method of ownership
						Direct	Indirect	
Hangzhou Shibao Auto Steering Gear Co., Ltd.	Zhejiang Hangzhou/PRC	Zhejiang Hangzhou/PRC	Manufacturing	Domestic enterprises	RMB69 million	100.00		Establishment
Hangzhou New Shibao Electric Power Steering Co., Ltd.	Zhejiang Hangzhou/PRC	Zhejiang Hangzhou/PRC	Manufacturing	Domestic enterprises	RMB60 million	90.00		Establishment
Jilin Shibao Machinery Manufacturing Co., Ltd.	Jilin Sping/PRC	Jilin Sping/PRC	Manufacturing	Domestic enterprises	RMB41 million	100.00		Establishment
Beijing Autonics Technology Co., Ltd.	Beijing/PRC	Beijing/PRC	Technology development	Domestic enterprises	RMB60 million	100.00		Business combination not under common control
Wuhu Sterling Steering System Co., Ltd.	Anhui Wuhu/PRC	Anhui Wuhu/PRC	Manufacturing	Domestic enterprises	RMB22.80 million	57.89		Business combination not under common control
Erdos Sterling Steering System Co., Ltd.	Inner Mongolia/PRC	Inner Mongolia/PRC	Manufacturing	Domestic enterprises	RMB10 million		57.89	Business combination not under common control

(2) Significant non-wholly owned subsidiaries

1. Breakdown

Name of subsidiary	Percentage of shareholding of minority shareholders	Profit/loss contributed to minority shareholders of the current period	Declared dividends distribution to minority shareholders of the current period	Balance of minority shareholders' equity at the end of the period
Hangzhou New Shibao Electric Power Steering Co., Ltd.	10.00%	2,787,232.21		2,145,135.44
Wuhu Sterling Steering System Co., Ltd.	42.11%	4,874,056.87		-14,046,751.19

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(2) Significant non-wholly owned subsidiaries (continued)

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

(1) Assets and liabilities

Name of subsidiary	As at the end of the period					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou New Shibao Electric Power Steering Co., Ltd.	356,104,083.66	100,897,606.07	457,001,689.73	435,129,696.27	420,639.05	435,550,335.32
Wuhu Sterling Steering System Co., Ltd.	244,242,262.74	51,899,665.78	296,141,928.52	326,326,738.81	3,172,471.09	329,499,209.90

(continue the above table)

Name of subsidiary	As at the end of last year					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou New Shibao Electric Power Steering Co., Ltd.	343,895,004.20	91,620,807.43	435,515,811.63	441,441,909.76	494,869.61	441,936,779.37
Wuhu Sterling Steering System Co., Ltd.	120,618,716.40	44,338,281.12	164,956,997.52	206,243,864.36	3,644,997.46	209,888,861.82

(2) Profit/loss and cash flows

Name of subsidiary	Balance for the current period				
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	453,020,111.79	27,872,322.15	27,872,322.15	-7,918,985.41	
Wuhu Sterling Steering System Co., Ltd.	460,123,035.64	11,574,582.92	11,574,582.92	16,243,335.76	

(continue the above table)

Name of subsidiary	Balance for the corresponding period last year				
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	
Hangzhou New Shibao Electric Power Steering Co., Ltd.	499,845,193.13	29,983,484.50	29,983,484.50	60,918,832.57	
Wuhu Sterling Steering System Co., Ltd.	225,345,254.25	-1,325,437.25	-1,325,437.25	11,723,396.28	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

8. GOVERNMENT GRANTS

(1) Addition of government grants during the period

Item	Amount of grants increased during the period
Government grants relating to assets	15,176,200.00
Including: Included in deferred income	15,176,200.00
Government grants relating to income	8,308,381.67
Including: Included in other gains	8,308,381.67
Total	<u>23,484,581.67</u>

(2) Liability related to government grants

Items presented in financial statements	Balance at the beginning of the period	Amount of grants increased during the period	Amount included in other gains during the period	Amount included in non-operating income during the period
Deferred income	28,083,266.73	15,176,200.00	10,579,011.51	
Subtotal	<u>28,083,266.73</u>	<u>15,176,200.00</u>	<u>10,579,011.51</u>	

(continue the above table)

Item	Amount of cost offset against during the period	Amount of assets offset against during the period	Other changes	Balance at the end of the period	Related to assets/income
Deferred income				32,680,455.22	Related to assets
Subtotal				<u>32,680,455.22</u>	

(3) Amount of government grants included in current profit or loss

Item	Balance for the current period	Balance for the corresponding period last year
Amount of government grants included in other gains	18,887,393.18	18,840,594.64
Total	<u>18,887,393.18</u>	<u>18,840,594.64</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(1) Details of financial instruments

Item	Balance at the end of the period	Balance at the end of last year
Financial assets	1,189,777,990.80	948,498,063.80
Including: Cash on hand and at bank	158,481,484.94	232,225,660.78
Financial assets held for trading	110,253,432.83	120,393,605.57
Accounts receivable	717,577,606.43	450,378,856.64
Financing receivables	199,966,034.43	141,228,798.62
Other receivables	3,499,432.17	4,271,142.19
Financial liabilities	1,054,785,589.38	893,350,963.09
Including: Bank borrowings	207,741,181.54	196,981,075.00
Notes payable	191,745,893.38	200,181,609.95
Accounts payable	652,464,245.78	492,851,770.30
Other payables	2,834,268.68	3,336,507.84

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

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

(2) Credit risk

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

1. Credit risk management practices

(1) Assessment method on credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(2) Credit risk *(continued)*

1. Credit risk management practices *(continued)*

(2) *Definition of default and credit-impaired asset*

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

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

2. ECL measurement

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

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

4. Credit risk exposure and credit risk concentration

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

(1) *Cash on hand and at bank*

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

(2) *Accounts receivable*

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

As the Company trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As at 31 December 2023, the Company had certain concentration of credit risk as 36.96% (31 December 2022: 31.43%) of the Company's accounts receivable were due from the five largest customers. The Company does not hold any collateral or other credit enhancements over the balance of accounts receivable.

The maximum credit risk exposure of the Company was the carrying amount of each financial asset in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(3) Liquidity risk

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

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

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

1. Classification of financial assets based on the remaining maturity

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Cash on hand and at bank	158,481,484.94	158,481,484.94	158,481,484.94		
Financial assets held for trading	110,253,432.83	110,253,432.83	110,253,432.83		
Accounts receivable	717,577,606.43	717,577,606.43	717,577,606.43		
Financing receivables	199,966,034.43	199,966,034.43	199,966,034.43		
Other receivables	3,499,432.17	3,499,432.17	3,499,432.17		
Subtotal	<u>1,189,777,990.80</u>	<u>1,189,777,990.80</u>	<u>1,189,777,990.80</u>		

(continue the above table)

Item	Carrying value	Balance at the end of last year			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Cash on hand and at bank	232,225,660.78	232,225,660.78	232,225,660.78		
Financial assets held for trading	120,393,605.57	120,393,605.57	120,393,605.57		
Accounts receivable	450,378,856.64	450,378,856.64	450,378,856.64		
Financing receivables	141,228,798.62	141,228,798.62	141,228,798.62		
Other receivables	4,271,142.19	4,271,142.19	4,271,142.19		
Subtotal	<u>948,498,063.80</u>	<u>948,498,063.80</u>	<u>948,498,063.80</u>		

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(3) Liquidity risk (continued)

2. Classification of financial liabilities based on the remaining maturity

Item	Carrying value	Balance at the end of the period			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank and other borrowings	207,741,181.54	212,121,134.14	176,340,729.00	35,780,405.14	
Notes payable	191,745,893.38	191,745,893.38	191,745,893.38		
Accounts payable	652,464,245.78	652,464,245.78	652,464,245.78		
Other payables	2,834,268.68	2,834,268.68	2,834,268.68		
Subtotal	<u>1,054,785,589.38</u>	<u>1,059,165,541.98</u>	<u>1,023,385,136.84</u>	<u>35,780,405.14</u>	

(continue the above table)

Item	Carrying value	Balance at the end of last year			
		Contractual undiscounted amount	Within 1 year	1-3 years	Over 3 years
Bank and other borrowings	196,981,075.00	203,227,413.62	156,994,620.69	46,232,792.93	
Notes payable	200,181,609.95	200,181,609.95	200,181,609.95		
Accounts payable	492,851,770.30	492,851,770.30	492,851,770.30		
Other payables	3,336,507.84	3,336,507.84	3,336,507.84		
Subtotal	<u>893,350,963.09</u>	<u>899,597,301.71</u>	<u>853,364,508.78</u>	<u>46,232,792.93</u>	

(4) Market risk

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

1. Interest rate risk

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

As of 31 December 2023, the Company's bank borrowings with floating interest rates were RMB79,590,000.00 (31 December 2022: RMB84,980,000.00) and will not have any significant impact on total profit and shareholders' equity of the Company, assuming other variables held constant and a 50 basis point change in interest rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(4) Market risk (continued)

2. Foreign exchange risk

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

For the Company's monetary assets and liabilities in foreign currencies at the end of the period, please see note 5(4)1 to the consolidated financial statements of notes to this financial statements.

(5) Capital risk management

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

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. As at 31 December 2023, the Company's gearing ratio was 5.69% (2022: 2.92%). The calculation is described as follow:

Item	Balance at the end of the period	Balance at the end of last year
Total borrowings	207,741,181.54	196,981,075.00
Less: Cash and cash equivalents	119,831,809.48	155,644,045.68
Net debt	87,909,372.06	41,337,029.32
Equity	1,457,963,603.73	1,373,097,971.86
Total capital	1,545,872,975.79	1,414,435,001.18
Gearing ratio	5.69%	2.92%

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

10. FAIR VALUE DISCLOSURE

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

Item	Fair value at the end of the period			Total
	Fair value measured at level 1	Fair value measured at level 2	Fair value measured at level 3	
Recurring fair value measurement				
1. Financial assets held for trading and other non-current financial assets	2,843,387.88		107,410,044.95	110,253,432.83
(1) Financial assets at fair value through profit or loss	2,843,387.88		107,410,044.95	110,253,432.83
Stock investment	2,843,387.88			2,843,387.88
Bank wealth management products			107,410,044.95	107,410,044.95
2. Financing receivables			199,966,034.43	199,966,034.43
Total assets measured at fair value on a recurring basis	2,843,387.88		307,376,079.38	310,219,467.26

(2) Basis for determining level 1 fair value at recurring and non-recurring fair measurement

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

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

The company determines a fair value, using a certain valuation technique. For short-term wealth management projects of banks, the key parameters the Company adopted include, among others, expected rate of return based on historical experience and future trends; and receivables financing comprises mainly bank acceptance bill and the key parameters the Company adopted include, among others, expected credit loss rate estimated based on the credit risk of the acceptance bank and historical experience and future trends.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Related parties

1. Parent company

(1) Parent company

Name of parent company	Relationship	Corporate type	Corporate representative	Nature of business
Zhejiang Shibao Holding Group Co., Ltd	The controlling shareholder	Limited liability	Zhang Shi Zhong	Industrial investment

(continue the above table)

Name of parent company	Place of registration	Registered capital (RMB0,000)	Shareholding % in the Company	Voting % in the Company
Zhejiang Shibao Holding Group Co., Ltd	Zhejiang Yiwu	5,000.00	36.40	36.40

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

2. Details of the Company's subsidiaries are set out in the note 7 to the financial statements.

(2) Related parties transactions

1. Guarantee with related parties

The Company and its subsidiaries as the secured parties

Guarantor	Guaranteed amount (RMB0,000)	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fully fulfilled	Remarks
Zhang Shi Quan	6,800.00	2023/3/15–2023/4/3	2024/3/5–2024/3/29	No	Short-term loans
Zhejiang Shibao Holding Group Co., Ltd.	4,100.00	2023/6/30–2023/12/25	2023/12/30–2024/6/25	No	Banker's acceptance

2. Remuneration of key management

Item	Balance for the current period	Balance for the corresponding period last year
Directors and Supervisors	4,478,563.49	4,381,874.65
Other key management	660,250.08	636,587.52
Total	5,138,813.57	5,018,462.17

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(2) Related parties transactions (continued)

3. Remuneration of Directors and Supervisors

Item	Balance for the current period							Total
	Fee	Salaries, allowances and subsidies	Bonus	Housing funds	Pension insurance	Other social insurance	Benefits in kind	
Executive Directors:		2,423,359.99	180,000.00	148,521.00	123,684.96	93,647.28		2,969,213.23
Zhang Bao Yi		1,049,999.95	100,000.00	53,842.00	37,482.48	28,379.64		1,269,704.07
Tang Hao Han		500,000.04		35,004.00	15,120.00	11,448.00		561,572.04
Zhang Lan Jun		399,999.96	80,000.00	51,035.00	37,482.48	28,379.64		596,897.08
Liu Xiao Ping		473,360.04		8,640.00	33,600.00	25,440.00		541,040.04
Non-executive Directors:		850,320.00						850,320.00
Zhang Shi Quan		600,000.00						600,000.00
Zhang Shi Zhong		250,320.00						250,320.00
Independent non-executive Directors:	240,000.24							240,000.24
Lin Yi	60,000.12							60,000.12
Gong Jun Jie	60,000.12							60,000.12
Tsui Chun Shing	120,000.00							120,000.00
Supervisors:		399,350.02			11,200.00	8,480.00		419,030.02
Du Min		150,000.00						150,000.00
Shen Song Sheng		41,350.02						41,350.02
Wu Lang Ping		144,000.00			11,200.00	8,480.00		163,680.00
Yang Di Shan		24,000.00						24,000.00
Feng Yan		24,000.00						24,000.00
Zhang Zhi Long		16,000.00						16,000.00
Total	240,000.24	3,673,030.01	180,000.00	148,521.00	134,884.96	102,127.28		4,478,563.49

(continue the above table)

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(2) Related parties transactions *(continued)*

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

Item	Fee	Salaries, allowances and subsidies	Balance for the corresponding period last year					Total
			Bonus	Housing funds	Pension insurance	Other social insurance	Benefits in kind	
Executive Directors:		2,283,360.05	200,000.00	140,238.00	132,941.76	100,656.48		2,857,196.29
Zhang Bao Yi		910,000.01	100,000.00	49,500.00	33,235.44	25,164.12		1,117,899.57
Tang Hao Han		500,000.04		35,004.00	33,235.44	25,164.12		593,403.60
Zhang Lan Jun		399,999.96	100,000.00	47,094.00	33,235.44	25,164.12		605,493.52
Liu Xiao Ping		473,360.04		8,640.00	33,235.44	25,164.12		540,399.60
Non-executive Directors:		847,254.00						847,254.00
Zhang Shi Quan		600,000.00						600,000.00
Zhang Shi Zhong		247,254.00						247,254.00
Independent non-executive Directors:	240,000.24							240,000.24
Lin Yi	60,000.12							60,000.12
Gong Jun Jie	60,000.12							60,000.12
Tsui Chun Shing	120,000.00							120,000.00
Supervisors:		402,000.12			20,160.00	15,264.00		437,424.12
Du Min		150,000.00						150,000.00
Shen Song Sheng		60,000.12						60,000.12
Wu Lang Ping		144,000.00			20,160.00	15,264.00		179,424.00
Yang Di Shan		24,000.00						24,000.00
Feng Yan		24,000.00						24,000.00
Zhang Zhi Long								
Total	240,000.24	3,532,614.17	200,000.00	140,238.00	153,101.76	115,920.48		4,381,874.65

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(2) Related parties transactions (continued)

4. Remuneration of five highest paid employees

During the year, the five highest paid employees include four (2022: four) Directors and details of their remunerations are set out in note 11(2)3 to the financial statements. The remuneration of the remaining one (2022: one) employee who are not director is as follows:

Item	Balance for the current period	Balance for the corresponding period last year
Salaries, allowances and subsidy	548,199.96	531,999.96
Bonus		
Housing provident fund	46,188.00	46,188.00
Pension insurance	37,482.48	33,235.44
Other social insurance	28,379.64	25,164.12
Total	660,250.08	636,587.52

The remuneration range of one (2022: one) employee who is not director is as follows:

Item	Number for the current period	Number for the corresponding period last year
HK\$0–1,000,000	1	1

(3) Receivable and payable with related parties

Item	Related party	Balance at the end of the period	Balance at the end of last year
Notes payable	Zhejiang Shibao (Note)	17,072,343.74	13,799,742.55
	Beijing Autonics (Note)	2,000,000.00	1,130,000.00
	Hangzhou New Shibao (Note)	31,290,000.00	21,960,000.00
	Jilin Shibao (Note)	1,300,000.00	6,150,000.00
	Wuhu Sterling (Note)		2,908,775.61
Sub-total		51,662,343.74	45,948,518.16

(Note): Notes payable are banker's acceptances issued by the Company and its subsidiaries Hangzhou Shibao, Jilin Shibao and Hangzhou New Shibao, and the related parties have endorsed the transfer after receiving the bank acceptance bill.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

12. COMMITMENTS AND CONTINGENCIES

(1) Major commitments

Item	Balance at the end of the period	Balance at the end of last year
Material contracts in relation to acquisition of assets contracted but not recognized	68,354,203.08	82,239,716.15

(2) Contingencies

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

13. EVENTS AFTER THE BALANCE SHEET DATE

As considered and approved at the 18th meeting of the seventh session of the Board of the Company held on 28 March 2024, the Company decided to distribute a cash dividend of RMB20,000,000.00 (tax inclusive) to all shareholders based on the share capital on the equity registration date when the 2023 annual equity distribution was implemented, i.e. approximately RMB0.25 (tax inclusive) per 10 shares based on the total share capital of 789,644,637 shares of the Company as of 27 March 2024. In this distribution, no capital reserve will be converted into share capital and no bonus shares will be issued. The Company is in the process of handling the matters in relation to the 2022 issuance of A shares to specific targets, and the actual amount of cash dividends to be distributed shall be calculated based on the total share capital as at the equity registration date when the equity distribution is implemented. If there is any change in the share capital of the Company during the period from the disclosure of the profit distribution plan to the implementation, the Company intends to adjust the distribution ratio accordingly based on the principle that the total distribution amount remains unchanged. The aforementioned profit distribution proposal is subject to approval at an annual general meeting.

14. OTHER IMPORTANT MATTERS

(1) Segment Information

1. Operating segment

As the operations and assets of both the Company and its subsidiaries are related to automotive steering system and components and are mainly located in Mainland China where 94.63% of the revenue was generated from domestic sales, no detailed segment information is required to be disclosed.

2. Information about major customers

(1) Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company in 2023 is as follows:

Name of customer	Revenue	Proportion to total revenue of the Company (%)
Chery Commercial Vehicle (Anhui) Co., Ltd.	192,555,922.94	10.58

(2) There were no customers from whom the revenue individually accounted for 10% or more of the total revenue of the Company in 2022.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

14. OTHER IMPORTANT MATTERS (continued)

(2) Other financial information

Item	Balance at the end of the period		Balance at the end of last year	
	Consolidated	The Parent	Consolidated	The Parent
Net current assets	558,924,559.83	424,026,393.11	461,291,615.20	451,955,533.38
Total assets less current liabilities	1,527,444,754.65	1,165,922,113.38	1,450,616,681.65	1,154,217,069.68

(3) Other major transactions and events that have an impact on investors' decisions

- As at the date of the approval of this financial report, both the Company and its subsidiaries have not completed the procedures for the settlement of the Enterprise Income Tax for 2023.
- Issuance of A shares to specific targets

The Company's issuance of A shares to specific targets in 2022 was approved by the listing review center of Shenzhen Stock Exchange on 26 May 2023, and the approval for registration by the China Securities Regulatory Commission was obtained on 4 July 2023. As of the date of approval of this financial report, the Company is in the process of handling the issuance of A shares to specific targets in 2022.

15. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

(1) Notes to the Balance Sheet of the Parent Company

1. Accounts receivable

(1) Aging analysis

Age	Carrying amount at the end of the period	Carrying amount at the beginning of the period
Within 1 year	159,124,568.22	127,394,623.65
1-2 years		4,249.20
Over 3 years	292,979.00	292,979.00
Total	159,417,547.22	127,691,851.85

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

1. Accounts receivable (continued)

(2) Provision for bad debts

1) Breakdown by types

Types	Balance at the end of the period		Provision for bad debts		Book value
	Carrying amount Amount	%	Amount	%	
Bad debt provision on individual basis	292,979.00	0.18	292,979.00	100.00	
Provision for bad debt by groups	159,124,568.22	99.82	1,140.78		159,123,427.44
Total	159,417,547.22	100.00	294,119.78	0.18	159,123,427.44

(continue the above table)

Types	Balance at the end of last year		Provision for bad debts		Book value
	Carrying amount Amount	%	Amount	%	
Bad debt provision on individual basis	292,979.00	0.23	292,979.00	100.00	
Provision for bad debt by groups	127,398,872.85	99.77	6,430.99	0.01	127,392,441.86
Total	127,691,851.85	100.00	299,409.99	0.23	127,392,441.86

2) There is no significant accounts receivable with bad debt provision on individual basis at the end of the period.

3) Accounts receivable with bad debt provision based on group

Item	Balance at the end of the period		Provision (%)
	Carrying amount	Provision for bad debts	
Aging group	1,267,531.02	1,140.78	0.09
Group of related dealings within the scope of combination	157,857,037.20		
Sub-total	159,124,568.22	1,140.78	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

1. Accounts receivable (continued)

(2) Provision for bad debts (continued)

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

Age	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Within 1 year	1,267,531.02	1,140.78	0.09
Subtotal	1,267,531.02	1,140.78	0.09

(3) Change in provision for bad debts

1) Breakdown

Item	Balance at the beginning of the period	Amount of changes during the period				Balance at the end of the period
		Provision	Recovery or Reversal	Write-off	Others	
Bad debt provision on individual basis	292,979.00					292,979.00
Provision for bad debt by groups	6,430.99	-5,290.21				1,140.78
Sub-total	299,409.99	-5,290.21				294,119.78

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

(4) There are no accounts receivables written off during the period.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

1. Accounts receivable (continued)

(5) The five largest accounts receivable

Name	Balance at the end of the period			Percentage of total balance of accounts receivable and contract assets at the end of the period (%)	Bad debt provision for accounts receivable and impairment provision for contract assets
	Accounts receivable	Contract assets	Subtotal		
Wuhu Sterling (蕪湖世特瑞轉向系統有限公司)	86,186,202.62		86,186,202.62	54.06	
Hangzhou New Shibao (杭州新世寶電動轉向系統有限公司)	53,387,800.61		53,387,800.61	33.49	
Hangzhou Shibao Auto Steering Gear Co., Ltd.	18,283,033.97		18,283,033.97	11.47	
Zhejiang Zhengchuang Technology Co., Ltd. (浙江正創科技有限公司)	539,317.09		539,317.09	0.34	485.39
Zhejiang Keli Vehicle Control System Co., Ltd.	497,521.79		497,521.79	0.31	447.77
Total	158,893,876.08		158,893,876.08	99.67	933.16

2. Other receivables

(1) Classification by nature

Nature of the receivables	Balance at the end of the period	Balance at the end of last year
Current accounts	396,826,274.74	425,508,500.74
Security deposits	350.00	350.00
Imprest	32,900.00	117,881.88
Others	291,054.90	811,864.19
Total	397,150,579.64	426,438,596.81

(2) Aging analysis

Age	Balance at the end of the period	Balance at the end of last year
Within 1 year	79,206,237.20	76,515,165.87
1-2 years	64,859,486.71	46,511,259.84
2-3 years	22,760,051.02	20,724,860.07
Over 3 years	230,324,804.71	282,687,311.03
Total	397,150,579.64	426,438,596.81

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

2. Other receivables (continued)

(3) Provision for bad debts

1) Breakdown by types

Type	Carrying amount		Balance at the end of the period Provision for bad debts		Carrying amount
	Amount	%	Amount	Provision (%)	
Provision for bad debt by groups	397,150,579.64	100.00			397,150,579.64
Total	397,150,579.64	100.00			397,150,579.64

(continue the above table)

Types	Carrying amount		Balance at the end of last year Provision for bad debts		Book value
	Amount	%	Amount	%	
Provision for bad debt by groups	426,438,596.81	100.00			426,438,596.81
Total	426,438,596.81	100.00			426,438,596.81

2) Other receivables with provision for bad debt by groups

Group	Balance at the end of the period		
	Carrying amount	Provision for bad debts	Provision (%)
Related party dealings within the scope of combination	396,826,274.74		
Deposit	350.00		
Reserves and others	323,954.90		
Sub-total	397,150,579.64		

(4) There are no other receivables written off during the period.

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

2. Other receivables (continued)

(5) The five largest other receivables

Name	Nature of the receivables	Carrying amount	Age	Percentage to the balance of other receivables (%)	Provision for bad debts
Jilin Shibao	Current account	189,327,550.80	Within 1 year, 1-2 years, 2-3 years, over 3 years	47.67	
Hangzhou New Shibao	Current account	110,104,212.46	1-2 years, 2-3 years, over 3 years	27.72	
Beijing Autonics	Current account	59,894,511.48	Within 1 year, 1-2 years	15.08	
Wuhu Sterling	Current account	37,500,000.00	1-2 years, 2-3 years	9.44	
Zhejiang Chuangku Technology Co., Ltd. (浙江創酷科技有限公司)	Other	99,911.00	Within 1 year	0.03	
Sub-total		396,926,185.74		99.94	

3. Long-term equity investments

(1) Breakdown

Item	Balance at the end of the period			Balance at the end of last year		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Investments in subsidiaries	235,159,214.87		235,159,214.87	185,159,214.87		185,159,214.87
Total	235,159,214.87		235,159,214.87	185,159,214.87		185,159,214.87

(2) Investment in subsidiaries

Investees	Balance at the beginning of the period		Changes during the period				Balance at the end of the period	
	Book value	Provision for impairment	Additional investment	Decrease in Investment	Provision for impairment	Others	Book value	Provision for impairment
Hangzhou Shibao	70,461,807.49						70,461,807.49	
Hangzhou New Shibao	42,000,000.00						42,000,000.00	
Jilin Shibao	43,250,000.00						43,250,000.00	
Beijing Autonics	10,000,000.00		50,000,000.00				60,000,000.00	
Wuhu Sterling	19,447,407.38						19,447,407.38	
Sub-total	185,159,214.87		50,000,000.00				235,159,214.87	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

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

(1) Notes to the Balance Sheet of the Parent Company (continued)

3. Long-term equity investments (continued)

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

Item	Balance at the end of the period	Balance at the end of last year
Investment in non-public listed companies	235,159,214.87	185,159,214.87
Total	235,159,214.87	185,159,214.87

(2) Notes to the Income Statement of the Parent Company

1. Revenue/cost of sales

Item	Balance for the current period		Balance for the corresponding period last year	
	Revenue	Cost	Revenue	Cost
Revenue/cost from main business	276,916,463.11	243,942,463.37	197,299,876.16	173,056,027.39
Revenue/cost from other business	29,254,497.46	16,275,169.13	26,274,029.86	12,763,993.22
Total	306,170,960.57	260,217,632.50	223,573,906.02	185,820,020.61
Include: revenue from contracts with customers	288,052,885.35	254,499,365.50	204,234,665.67	179,871,459.18

2. Research and development expenses

Item	Balance for the current period	Balance for the corresponding period last year
Wages, welfare and bonuses	2,917,817.75	2,517,740.18
Direct investment	5,688,719.27	4,651,323.36
Energy costs	949,555.71	788,730.02
Depreciation of fixed assets	1,028,618.42	574,994.68
Others	4,019.34	16,168.02
Total	10,588,730.49	8,548,956.26

3. Investment gains

Item	Balance for the current period	Balance for the corresponding period last year
Interest income from loans	6,989,098.63	5,411,676.52
Losses on discounted financing of receivables	-364,936.72	-33,055.56
Total	6,624,161.91	5,378,620.96

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

16. OTHER IMPORTANT MATTERS

(1) Non-recurring gain and loss

1. List of non-recurring gain and loss

Item	Amount	Description
Gain or loss on disposal of non-current assets, inclusive of provision for assets impairment write-off	-2,473,688.10	
Government grants (except for government grants which are closely related to the Company's ordinary business, conform with the national policies, enjoy in accordance with determined standards, have a lasting impact on the Company's profits and losses) recognized in gains or losses during the current period	9,369,964.82	
Non-financial enterprises' gains and losses from changes in fair value arising from holding financial assets and financial liabilities and gains and losses arising from the disposal of financial assets and financial liabilities, except for the effective hedging business related to the Company's ordinary business	2,047,493.37	
Fees for usage of funds received from non-financial enterprises recognized in profits and losses during the current period		
Gains or losses from discretionary investment or asset management		
Gains or losses from external entrusted loans		
Loss of assets due to force majeure factors such as natural disasters		
Reversal of impairment provisions for receivables subject to individual impairment test	2,837,151.09	
Investment costs paid by the investor in acquiring the subsidiaries, associates and joint ventures less the gain derived from the fair value of the investee's identifiable net assets at the time of investment		
Net gains or losses from the subsidiary formed by merging jointly controlled enterprises from the beginning of the reporting period to the date of merger attributable to the current period		
Profit and loss from exchange of non-monetary assets		
Gains or losses from debt restructuring		
One-off expenses incurred by the enterprise due to the termination of relevant business activities, such as staff resettlement expenses		
One-off effect on current gains or losses due to the adjustment of tax and accounting laws and regulations		
One-off share-based payment expenses recognized due to cancelation and modification of share incentive scheme		
Gains or losses arising from changes in fair value of employee benefits payable after the vesting period in respect of cash-settled share-based payments		
Gains or losses from changes in fair value of investment properties adopting fair value method for follow-up measurements		
Gains or losses arising from transactions at unfair trading		
Gains or losses from contingency items unrelated to the normal business operations of the Company		
Discretionary fee income received from discretionary operations		
Other non-operating income and expenses apart from those stated above	-169,586.74	
Other gains and losses items conforming with the definition of non-recurring gains or losses		
Sub-total	<u>11,611,334.44</u>	
Less: Effect on enterprise income tax increase/(decrease)		
Effect on interest of minority shareholders (after tax)	<u>-1,218,192.07</u>	
Items of non-recurring gains or losses attributable to equity holders of the parent	<u>12,829,526.51</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

16. OTHER IMPORTANT MATTERS (continued)

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

2. The impact of the implementation of the Explanatory Announcement No. 1 on Information Disclosure of Companies Issuing Securities to the Public – Non-recurring Gains or Losses (Revised in 2023) on the amount of non-recurring gains or losses in 2022

Item	Amount
Net non-recurring gains or losses attributable to equity holders of the parent in 2022	25,481,454.20
Net non-recurring gains or losses attributable to equity holders of the parent in 2022 calculated in accordance with the requirements of the Explanatory Announcement No. 1 on Information Disclosure of Companies Issuing Securities to the Public – Non-recurring Gains or Losses (Revised in 2023)	17,006,627.42
Difference	8,474,826.78

(2) Return on net assets and earnings per share

1. Details

Profit during the period	Weighted average return on net assets ratio (%)	Earnings per share (RMB/share)	
		Basic	Diluted
Net profit attributable to the holders of the Company's ordinary shares	5.39	0.10	0.10
Net profit, after deduction of non-recurring gain and loss, attributable to the holders of the Company's ordinary shares	4.50	0.08	0.08

2. Calculation of weighted average return on net assets ratio

Item	No.	Balance for the current period
Net profit attributable to ordinary shareholders of the Company	A	77,204,342.79
Non-recurring gain and loss	B	12,829,526.51
Net profit net of non-recurring gain and loss attributable to ordinary shareholders of the Company	C=A-B	64,374,816.28
Net assets at the beginning of the period attributable to ordinary shareholders of the Company	D	1,392,660,876.69
Additions to net assets as a result of an issue of shares, conversion of loans, etc. attributable to ordinary shareholders of the Company	E	
Number of months from the month after increase in assets to end of reporting period	F	
Decrease in net assets net of repurchase, bonus, etc. attributable to ordinary shareholders of the Company	G	
Number of months from the month after decrease in assets to end of reporting period	H	
Others Other items increase net assets	I	
Number of months from the month after change in assets to end of reporting period	J	
Number of months during the reporting period	K	12
	$L = D + A/2 + E \times F/K - G \times H/K \pm I \times J/K$	1,431,263,048.09
Weighted average net assets	M=A/L	5.39%
Weighted average return on net assets ratio, after deduction of non-recurring gain and loss	N=C/L	4.50%

NOTES TO THE FINANCIAL STATEMENTS

For the year 2023 | (RMB Yuan) | (English translation for reference only)

16. OTHER IMPORTANT MATTERS (continued)

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

3. Calculations of basic and diluted earnings per share

(1) Calculations of basic earnings per share

Item	Number	Balance for the current period
Net profits attributable to the ordinary shareholders of the Company	A	77,204,342.79
Non-recurring profit/loss	B	12,829,526.51
Net profits after deducting non-recurring profit/loss attributable to the ordinary shareholders of the Company	C=A-B	64,374,816.28
Total number of shares at beginning	D	789,644,637.00
Increase in number of shares due to transfer from reserves to capital or distribution of scrip dividend	E	
Increase in number of shares due to issuance of new shares or convertibles	F	
Number of months calculated from the month after increase in shares to end of reporting period	G	
Decrease in number of shares due to repurchase	H	
Number of months calculated from the month after decrease in shares to end of reporting period	I	
Reduction in number of shares during the reporting period	J	
Number of months in the reporting period	K	12.00
Weighted average number of issued ordinary shares	$L=D+E+F \times G/K-H \times I/K-J$	789,644,637.00
Basic earnings per share	$M=A/L$	0.10
Basic earnings per share after deducting non-recurring profit/loss	$N=C/L$	0.08

(2) Calculations of diluted earnings per share are the same as the calculations of basic earnings per share.

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

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

“A Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued in China and listed on Shenzhen Stock Exchange, and are subscribed for and traded in RMB
“Articles of Association”	Articles of association of the Company
“Audit Committee”	Audit committee of the Company
“Beijing Autonics”	Beijing Autonics Technology Co., Ltd., a wholly-owned subsidiary of the Company
“Board”	Board of Directors of the Company
“China Accounting Standards for Business Enterprises or Accounting Standards for Business Enterprises or ASBE”	Financial reporting standards and interpretations for business enterprises issued by the China Accounting Standards Committee of the China Ministry of Finance
“Company or Zhejiang Shibao”	Zhejiang Shibao Company Limited
“Corporate Governance Code or CG Code”	Corporate Governance Code, Appendix C1 to the Listing Rules of Hong Kong Stock Exchange
“CSRC”	China Securities Regulatory Committee of PRC
“Director(s)”	Director(s) of the Company
“Erdos Sterling”	Erdos Sterling Steering System Co., Ltd., a wholly-owned subsidiary of Wuhu Sterling
“ESG Committee”	Environmental, social and governance committee of the Company
“FAW Group”	FAW Group Corporation
“Group”	The Company and its subsidiaries
“H Share(s)”	Ordinary share(s) with a nominal value of RMB1.00 each in the capital of the Company issued overseas and listed on Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars
“Hangzhou New Shibao”	Hangzhou New Shibao Electric Power Steering Co., Ltd., a subsidiary controlled by the Company
“Hangzhou Shibao”	Hangzhou Shibao Auto Steering Gear Co., Ltd., a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

GLOSSARY

(English translation for reference only)

“Jilin Shibao”	Jilin Shibao Machinery Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company
“Listing Rules”	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix C3 to the Listing Rules of Hong Kong Stock Exchange
“Nomination Committee”	Nomination committee of the Company
“PRC or China or Mainland China”	People’s Republic of China
“Remuneration Committee”	Remuneration committee of the Company
“Reporting Period or This Period”	1 January 2023 to 31 December 2023
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	A Share(s) and/or H Share(s)
“Shareholder(s)”	Shareholder(s) of the Company
“Shenzhen Stock Exchange”	The Shenzhen Stock Exchange of the PRC
“Shibao Holding or Ultimate Holding Company or Controlling Shareholder”	Zhejiang Shibao Holding Group Co., Ltd.
“Supervisor(s)”	Supervisor(s) of the Company
“Supervisory Committee”	Supervisory committee of the Company
“Wuhu Sterling”	Wuhu Sterling Steering System Co., Ltd., a subsidiary controlled by the Company