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Zhejiang Shibao Company Limited*

浙江世寶股份有限公司

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

(Stock Code: 1057)

ANNOUNCEMENT OF REUSLTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	2018	**2017**	**Change**
	RMB	RMB	
Revenue	1,133,097,729.85	1,154,256,267.96	-1.83%
Net profit attributable to shareholders of the listed company	7,278,368.34	32,656,134.48	-77.71%
Net profit after non-recurring gains and losses attributable to shareholders of the listed company	-23,018,650.44	13,850,145.51	-266.20%
Net cash flow from operating activities	-12,849,643.30	-22,855,198.05	-43.78%
Basic earnings per share (RMB/Share) (note)	0.0092	0.0414	-77.78%
Diluted earnings per share (RMB/Share) (note)	0.0092	0.0414	-77.78%
Weighted average return on net assets (%)	0.49%	2.21%	-1.72%
	31 December 2018	**31 December 2017**	**Change**
	RMB	RMB	
Total assets	2,045,077,333.85	2,104,424,460.90	-2.82%
Net assets attributable to shareholders of the listed company	1,478,546,682.81	1,474,580,109.38	0.27%

* *For identification purpose only*

AUDITED ANNUAL RESULTS

The board of directors (the "**Board**") of Zhejiang Shibao Company Limited (the "**Company**") announces the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018 prepared pursuant to China Accounting Standards for Business Enterprises ("CASBE"), together with the comparative figures in 2017. The consolidated annual results for 2018 have been reviewed by the Company's audit committee.

1. FINANCIAL STATEMENTS

(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

CONSOLIDATED BALANCE SHEET
31 December 2018

Item	Note 4	31 December 2018	1 January 2018	31 December 2017
Current assets:				
Cash on hand and at bank		129,531,349.92	184,342,739.55	184,342,739.55
Financial assets held for trading		60,000,000.00	130,000,000.00	-
Notes receivable and accounts receivable	1	610,680,317.08	626,535,368.21	627,063,459.95
Include: Notes receivable		142,065,764.04	114,302,216.24	114,302,216.24
Accounts receivable		468,614,553.04	512,233,151.97	512,761,243.71
Prepayments		5,961,331.19	7,004,776.38	7,004,776.38
Other receivables		7,223,954.38	6,468,067.86	6,468,067.86
Inventories		296,617,482.37	279,634,663.89	279,634,663.89
Other current assets		14,024,896.78	9,737,784.36	139,737,784.36
Total current assets		1,124,039,331.72	1,243,723,400.25	1,244,251,491.99
Non-current assets:				
Investment real estate		23,875,050.98	-	-
Fixed assets		648,472,200.05	592,681,978.24	592,681,978.24
Construction in progress		101,847,457.97	119,801,083.84	119,801,083.84
Intangible assets		90,633,988.60	97,344,007.19	97,344,007.19
Goodwill		4,694,482.34	4,694,482.34	4,694,482.34
Deferred income tax assets		3,795,739.02	3,371,721.21	3,302,768.13
Other non-current assets		47,719,083.17	42,348,649.17	42,348,649.17
Total non-current assets		921,038,002.13	860,241,921.99	860,172,968.91
Total assets		2,045,077,333.85	2,103,965,322.24	2,104,424,460.90

Item	Note 4	31 December 2018	1 January 2018	31 December 2017
Current liabilities:				
Short-term borrowings		20,000,000.00	-	-
Notes payable and accounts payable	2	428,731,466.38	497,568,559.83	497,568,559.83
Receipts in advance		2,090,618.17	-	3,382,424.14
Contract liabilities		3,902,211.90	3,382,424.14	-
Staff cost payable		13,581,085.61	15,671,079.38	15,671,079.38
Tax payable		1,905,954.69	8,252,072.77	8,252,072.77
Other payables		1,884,413.39	5,565,003.77	5,565,003.77
Include: Interest payable		910,048.62	882,136.11	882,136.11
Other current liabilities		28,305,075.09	23,955,021.97	23,955,021.97
Total current liabilities		500,400,825.23	554,394,161.86	554,394,161.86
Non-current liabilities:				
Long-term borrowings	3	9,080,000.00	11,080,000.00	11,080,000.00
Deferred income		41,967,767.80	46,477,939.98	46,477,939.98
Deferred income tax liabilities		3,106,579.85	3,456,833.99	3,456,833.99
Total non-current liabilities		54,154,347.65	61,014,773.97	61,014,773.97
Total liabilities		554,555,172.88	615,408,935.83	615,408,935.83
Equity:				
Share capital		789,644,637.00	789,644,637.00	789,644,637.00
Capital reserve		182,334,093.78	185,250,172.21	185,250,172.21
Surplus reserve		135,379,620.20	134,912,363.87	134,912,363.87
Retained earnings		371,188,331.83	364,377,219.82	364,772,936.30
Equity attributable to shareholders of the listed company		1,478,546,682.81	1,474,184,392.90	1,474,580,109.38
Minority interests		11,975,478.16	14,371,993.51	14,435,415.69
Total equity		1,490,522,160.97	1,488,556,386.41	1,489,015,525.07
Total liabilities and equity		2,045,077,333.85	2,103,965,322.24	2,104,424,460.90

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2018

Item	Note 4	2018	2017
Total Revenue	4	1,133,097,729.85	1,154,256,267.96
Include: Revenue	4	1,133,097,729.85	1,154,256,267.96
Total operating costs		1,167,117,808.81	1,142,643,391.78
Include: Operating costs	4	938,862,512.28	949,375,060.68
Business taxed and surcharges		8,448,316.41	10,062,932.55
Selling expenses		78,345,952.20	71,112,952.13
General and administrative expenses		72,020,750.48	65,146,644.24
Research and development expenses		66,456,611.17	47,668,732.19
Financial expenses	5	-446,912.58	-519,681.98
Include: Interests expenses		1,830,859.94	1,020,578.90
Interests income		3,672,267.93	1,767,119.27
Asset impairment losses		3,430,074.89	-203,248.03
Credit impairment losses		503.96	-
Add: Other gains		19,967,062.85	13,558,372.54
Investment gains		4,275,660.37	7,975,271.12
Gains/(Losses) from disposal of assets		11,896,367.95	-689,980.17
Total profit		2,119,012.21	32,456,539.67
Add: Non-operating income		308,431.56	264,753.45
Less: Non-operating expenses		535,293.70	403,128.52
Total profit		1,892,150.07	32,318,164.60
Less: income tax expenses	6	-73,624.49	5,584,361.33
Net profit (continuing operation)		1,965,774.56	26,733,803.27
Net profit attributable to shareholders of the listed company		7,278,368.34	32,656,134.48
Minority interests		-5,312,593.78	-5,922,331.21
Total comprehensive income		1,965,774.56	26,733,803.27
Total comprehensive income attributable to shareholders of the listed company		7,278,368.34	32,656,134.48
Total comprehensive income attributable to minority shareholders		-5,312,593.78	-5,922,331.21
Earnings per share:	8		
Basic earnings per share		0.0092	0.0414
Diluted earnings per share		0.0092	0.0414

2. NOTES TO THE FINANCIAL STATEMENTS

(1) BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. Basis of Preparation

The financial statements of the Company are presented on 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 12 months from the end of the reporting period.

(2) MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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 CASBE, which have truly and fully reflected the information of the Company, including the financial position, results of operations and cash flows.

2. Accounting period

The accounting year is from 1 January to 31 December.

3. Operating Cycle

The operating business cycle of the Company is relatively short. 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. Material changes in accounting policies

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

(1) The 2018 financial statements were prepared by the Company in accordance with the Notice from the Ministry of Finance on Revising and Issuing the Format of Financial Statements of General Enterprises (CAI KUAI (2018) No.15) and its interpretation and the Accounting Standards for Business Enterprises, and such change of accounting policy is subject to retrospective adjustments. Items and amounts in 2017 financial statements which are significantly affected are as follows:

<table>
<tr><th colspan="2">Old Item and Amount</th><th colspan="2">New Item and Amount</th></tr>
<tr><td>Notes receivable</td><td>114,302,216.24</td><td rowspan="2">Notes receivable and accounts receivable</td><td rowspan="2">627,063,459.95</td></tr>
<tr><td>Accounts receivable</td><td>512,761,243.71</td></tr>
<tr><td>Interest receivable</td><td></td><td rowspan="3">Other receivables</td><td rowspan="3">6,468,067.86</td></tr>
<tr><td>Dividends receivable</td><td></td></tr>
<tr><td>Other receivables</td><td>6,468,067.86</td></tr>
<tr><td>Fixed assets</td><td>592,681,978.24</td><td rowspan="2">Fixed assets</td><td rowspan="2">592,681,978.24</td></tr>
<tr><td>Disposal of fixed assets</td><td></td></tr>
<tr><td>Construction in progress</td><td>119,801,083.84</td><td rowspan="2">Construction in progress</td><td rowspan="2">119,801,083.84</td></tr>
<tr><td>Construction materials</td><td></td></tr>
<tr><td>Notes payable</td><td>105,976,263.36</td><td rowspan="2">Notes payable and accounts payable</td><td rowspan="2">497,568,559.83</td></tr>
<tr><td>Accounts payable</td><td>391,592,296.47</td></tr>
<tr><td>Interest payable</td><td>882,136.11</td><td rowspan="3">Other payables</td><td rowspan="3">5,565,003.77</td></tr>
<tr><td>Dividends payable</td><td></td></tr>
<tr><td>Other payables</td><td>4,682,867.66</td></tr>
<tr><td rowspan="2">General and administrative expenses</td><td rowspan="2">112,815,376.43</td><td>General and administrative expenses</td><td>65,146,644.24</td></tr>
<tr><td>Research and development expenses</td><td>47,668,732.19</td></tr>
<tr><td>Cash received relating to other operating activities [Note]</td><td>37,151,791.85</td><td>Cash received relating to other operating activities</td><td>52,398,991.85</td></tr>
<tr><td>Cash received relating to other investing activities [Note]</td><td>15,247,200.00</td><td>Cash received relating to other investing activities</td><td></td></tr>
</table>

Note: In the statement of cash flows, the government grants of RMB15,247,200.00 to be actually received in relation to assets were reclassified from "cash received relating to other investing activities" to "cash received relating to other operating activities".

(2) From 1 January 2018, the Company has adopted the Accounting Standard for Business Enterprises No. 14 - Revenue as amended (hereinafter referred to as the New Revenue Standard), the Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments, the Accounting Standard for Business Enterprises No. 23 - Transfer of Financial Assets, the Accounting Standard for Business Enterprises No. 24 - Hedging and the Accounting Standard for Business Enterprises No. 37 - Presentation of Financial Instruments of the Ministry of Finance as amended (hereinafter referred to as the New Financial Instrument Standards). According to the regulations on the transition from old to new accounting standards, no adjustments were made to information for the comparative period; on the date of first-time adoption, with regard to the difference between new and old accounting standards, the retained earnings or other comprehensive income at the beginning of the reporting period is subject to retrospective adjustments.

The main impact of the adoption of the new standards on the financial statements of the Company beginning 1 January 2018 is as follows:

Item	Balance Sheet 31 December 2017	Impact of adjustment under the new standards	1 January 2018
Notes receivable and accounts receivable	627,063,459.95	-528,091.74	626,535,368.21
Other current assets	139,737,784.36	-130,000,000.00	9,737,784.36
Financial assets held for trading		130,000,000.00	130,000,000.00
Deferred tax assets	3,302,768.13	68,953.08	3,371,721.21
Advance receipts	3,382,424.14	-3,382,424.14	
Contract liabilities		3,382,424.14	3,382,424.14
Undistributed profits	364,772,936.30	-395,716.48	364,377,219.82
Minority shareholders' equity	14,435,415.69	-63,422.18	14,371,993.51

① Adoption of the New Revenue Standard

The main impact of the adoption of the New Revenue Standard on the financial statements of the Company beginning 1 January 2018 is as follows:

Item	Balance Sheet 31 December 2017	Impact of Adjustment under the New Revenue Standard	1 January 2018
Receipts in advance	3,382,424.14	-3,382,424.14	
Contract liabilities		3,382,424.14	3,382,424.14

The Company only adjusted the total impact on contracts which had not been completed as at 1 January 2018. For contract changes occurring prior to 1 January 2018, the Company adopted a simplified approach, identifying obligations completed and not completed, determining the transaction price and allocating the transaction price between obligations completed and not completed according to the final arrangement of contract changes, for all contracts. The adoption of such simplified method has no significant impact on the financial statements of the Company.

② Adoption of the New Financial Instrument Standards

The New Financial Instrument Standards change the classification and measurement of financial assets and liabilities, and specify three main measurement categories: measured at amortised cost; measured at fair value through other comprehensive income; measured at fair value through profit or loss. The Company carried out the above classification, in consideration of its business model and the characteristics of contractual cash flows of financial assets and financial liabilities. The equity investment shall be measured at fair value through profit or loss, but may be irrevocably elected to be measured at fair value through other comprehensive income at initial recognition (gain or loss on disposal shall not be reversed to profit or loss, but dividend income shall be included in profit or loss for the period).

The New Financial Instrument Standards specifies a shift from the "incurred loss model" to the "expected credit loss model", for the measurement of impairment of financial assets, which is applicable to financial assets at amortised cost, financial assets at fair value through other comprehensive income, contract asset, lease receivables and otherwise.

The following table is a comparison of results of classification and measurement of financial assets and financial liabilities of the Company carried out on 1 January 2018 according to the New Financial Instrument Standards (hereinafter referred to as the New CAS22) and the Old Financial Instrument Standards (hereinafter referred to as the Old CAS22):

	Old Financial Instrument Standards		New Financial Instrument Standards	
Item	Measurement Categories	Carrying Value	Measurement Categories	Carrying Value
Cash on hand and at bank	Loans and receivables	184,342,739.55	Financial assets at amortised cost	184,342,739.55
Notes receivable and accounts receivable	Loans and receivables	627,063,459.95	Financial assets at amortised cost	626,535,368.21
Other receivables	Loans and receivables	6,468,067.86	Financial assets at amortised cost	6,468,067.86
Short-term bank wealth management products	Available-for-sale financial assets	130,000,000.00	Financial assets at fair value through profit or loss	130,000,000.00
Notes payable and accounts payable	Other financial liabilities	497,568,559.83	Financial liabilities at amortised cost	497,568,559.83
Other payables	Other financial liabilities	5,565,003.77	Financial liabilities at amortised cost	5,565,003.77
Long-term borrowings	Other financial liabilities	11,080,000.00	Financial liabilities at amortised cost	11,080,000.00

The following table shows the reconciliation of the carrying values of original financial assets and financial liabilities of the Company to the carrying values of new financial assets and new financial liabilities classified and measured according to the New Financial Instrument Standards, which was carried out on 1 January 2018:

Item	Carrying Value under the Old Financial Instrument Standards (31 December 2017)	Re-classification	Re-measurement	Carrying Value under the New Financial Instrument Standards (1 January 2018)
Amortised cost				
Cash on hand and at bank				
Balances under the Old CAS22 and New CAS22	184,342,739.55			184,342,739.55
Notes receivable and accounts receivable				
Balance under the Old CAS22	627,063,459.95			
Remeasurement: Expected credit loss allowance			-528,091.74	

Balance under the New CAS22				626,535,368.21
Other receivables				
Balances under the Old CAS22 and New CAS22	6,468,067.86			6,468,067.86
Total financial assets at amortised cost	817,874,267.36		-528,091.74	817,346,175.62
At fair value through profit or loss.				
Other current assets - short-term bank wealth management products				
Balance under the Old CAS22	130,000,000.00			
Less: Reclassification to at fair value through profit or loss (New CAS22)		-130,000,000.00		
Balance under the New CAS22				
Financial assets held for trading - short-term bank wealth management products				
Balance under the Old CAS22				
Add: Reclassification from available-for-sale financial assets (Old CAS22)		130,000,000.00		
Balance under the New CAS22				130,000,000.00
Total financial assets at fair value through profit or loss	130,000,000.00			130,000,000.00
Financial liabilities at amortised cost				
Notes payable and accounts payable				
Balances under the Old CAS22 and New CAS22	497,568,559.83			497,568,559.83
Other payables				
Balances under the Old CAS22 and New CAS22	5,565,003.77			5,565,003.77

Long-term borrowings				
Balances under the Old CAS22 and New CAS22	11,080,000.00			11,080,000.00
Total financial liabilities at amortised cost	514,213,563.60			514,213,563.60

The following table shows the reconciliation of the ending amount of the provision for impairment on original financial assets of the Company to the carrying values of the provision for impairment on new financial assets classified and measured according to the New Financial Instrument Standards, which was carried out on 1 January 2018:

Item	Loss provision under the Old Financial Instrument Standards (31 December 2017)	Re-classification	Re-measurement	Loss provision under the New Financial Instrument Standards (1 January 2018)
Loans and receivables (Old CAS22)/ financial assets at amortised cost (New CAS22)				
Notes receivable and accounts receivable	5,845,203.92		528,091.74	6,373,295.66
Other receivables	124,237.64			124,237.64
Total	5,969,441.56		528,091.74	6,497,533.30

(3) In 2017, the Ministry of Finance published the ASBE Interpretation 9 - Accounting of Net Losses on Equity Method Investment, the ASBE Interpretation 10 - Depreciation Method Based on Incomes from Fixed Assets, the ASBE Interpretation 11 - Amortisation Method Based on Incomes from Intangible Assets and the ASBE Interpretation 12 - Whether the Provider and the Recipient of Key Management Personnel Services are Related Parties. Since 1 January 2018, the Company has adopted the above ASBE Interpretations, which has no impact on the beginning data of the Company.

(3) TAXATION

1. Major types of tax and tax rates

Type of tax	Basis	Tax rate
Value added tax	Sales of goods or rendering of taxable services	17%/16%、11%/10% [Note]、6%、5%
Property tax	On the property value less 30%, or on rents	1.2%、12%
Urban maintenance and construction tax	Amount of payable turnover tax	7%、5%
Education surcharge	Amount of payable turnover tax	3%
Local education surcharge	Amount of payable turnover tax	2%
Corporate income tax	Amount of taxable income	15%、25%

Note: In accordance with the Document (CAI SHUI [2018] No.32) of the Ministry of Finance and the State Administration of Taxation, from 1 May 2018, the tax rates on sales behaviors or import goods of the Company and subsidiaries subject to the value-added tax at the former rates of 17% and 11% have been changed to 16% and 10%; the sale of the steering systems, parts and other commodities by the Company has been subject to the value-added tax at the rate of 17%/16%, and the transfer of patented technologies and provision of services and otherwise have been subject to the value-added tax at the rate of 6%, and the house leasing business and otherwise have been subject to the tax at the simplified rate of 5%; the "exemption, offset and rebate" tax policy has applied to export goods of Hangzhou Shibao Auto Steering Gear Co., Ltd. and Jilin Shibao Machinery Manufacturing Co., Ltd., both are subsidiaries of the Company; the export rebate rate on export goods previously subject to the tax rate of 17% and the export rebate rate of 17% is adjusted to 16%, which is applicable to goods exported after 1 August 2018.

Details of corporate income tax rates of different entities:

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

2. Tax concession

(1) According to the "Letter Regarding 2017 First Batch Filing of High-tech Enterprises of Zhejiang Province" issued by the Leading Group Office of National High-tech Enterprises Recognition and Management (CTP No. [2017] 201), the Company's subsidiaries, Hangzhou Shibao Auto Steering Gear Co., Ltd. and Hangzhou New Shibao Electric Power Steering Co., Ltd. obtained the High-tech Enterprise Certificates (No. GR201733000242 and GR201733001928 respectively) during 2017, with a valid period from 2017 to 2019. They are subject to a corporate income tax rate of 15% during the period.

(2) According to the "Administrative Measures for the Recognition of High-tech Enterprises" (CTP No. [2016] 32) and the "Guidelines for the Recognition Management Work of High-tech Enterprises" (CTP No. [2016] 195), the Company's subsidiary, Beijing Autonics Technology Co., Ltd. obtained the High-tech Enterprise Certificate (No. GR201711007542) during 2017, with a valid period from 2017 to 2019. It is subject to a corporate income tax rate of 15% during the period.

(3) According to the "Notification Regarding the Announcement of the List of the First Batch of High-tech Enterprises of Anhui Province Recognized in 2017" (Ke Gao No. [2017] 62) issued by the Anhui Provincial Department of Science and Technology, Anhui Provincial Department of Finance, Anhui Provincial Office, SAT and Anhui Local Taxation Bureau, the Company's subsidiary, Wuhu Sterling Steering System Co., Ltd. obtained the High-tech Enterprise Certificate (No. GR201734000456) during 2017, with a valid period from 2017 to 2019. It is subject to a corporate income tax rate of 15% during the period.

(4) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Notes receivable and accounts receivable

The aging analysis of accounts receivable is as follows:

Age	31 December 2018			31 December 2017		
	Carrying amount		Provision for bad debt	Carrying amount		Provision for bad debt
	Amount	%		Amount	%	
Within 1 year	595,553,860.63	96.56	292,027.34	623,169,659.26	98.46	
1-2 years	15,079,464.71	2.44	673,619.34	3,162,471.75	0.50	127,504.36
2-3 years	1,867,853.03	0.30	855,214.61	2,228,700.00	0.35	1,886,522.94
Over 3 years	4,318,396.33	0.70	4,318,396.33	4,347,832.86	0.69	3,831,176.62
Total	616,819,574.70	100.00	6,139,257.62	632,908,663.87	100.00	5,845,203.92

The aging analysis of notes receivable and 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. The notes generally expires within 180 days from the date of issue. Overdue balances are reviewed regularly by senior management.

2. Notes payable and accounts payable

The aging analysis of accounts payable is as follows:

Age	31 December 2018	31 December 2017
Within 1 year	297,625,066.68	379,869,070.23
1-2 years	3,744,206.81	8,982,445.81
2-3 years	4,202,557.32	572,171.65
Over 3 years	2,660,833.36	2,168,608.78
Total	308,232,664.17	391,592,296.47

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. Long-term borrowings

1) Breakdown

Item	31 December 2018	31 December 2017
Special funds for treasure bonds (Note 1)	280,000.00	280,000.00
Long-term borrowings (Note 2)	8,800,000.00	8,800,000.00
Guaranteed loans (Note 3)		2,000,000.00
Total	9,080,000.00	11,080,000.00

Note 1: These loans represented special funds for treasury bonds on key technological improvement projects of the State provided by the Ministry of Finance in Siping to the Company's subsidiary, Jilin Shibao Machinery Manufacturing Co., Ltd..

Note 2: These loans represented the interest-free capital loans from the Management Committee of the Tiedong Economic Development Zone in Siping to the Company's subsidiary, Jilin Shibao Machinery Manufacturing Co., Ltd., to expand production. The corresponding loans are not yet due for settlement.

Note 3: Wuhu Sterling Steering System Co., Ltd., a subsidiary of the Company, was accepted through the "Small Technology Giants" project, and the original long-term borrowings were reclassified as government grants, according to the Incubating Measures for the Enterprise Innovative Ability under the "Small Technology Giants of Wuhu City" (Wu Zheng Ban Notification No. [2014] 15) of the Science and Technology Bureau of Wuhu City and the Science and Technology Innovation Bureau of the Economic Development Zone, and the Notice on Results of Acceptance and Evaluation of the Third "Small Technology Giants of Wuhu City" (Wu Chuang Xin Chuang Ye Zu [2018] No.3) by the Sci-tech Innovation and Entrepreneurship Leading Group of Wuhu City. During the period, the Company accounted for the above long-term borrowings as government grants.

2) Analysis of long-term loans by maturity date

Item	31 December 2018	31 December 2017
Current or within 1 year		
Over 1 year but within 2 years		
Over 2 years but within 5 years	9,080,000.00	11,080,000.00
Over 5 years		
Sub-total	9,080,000.00	11,080,000.00
Include: Long-term loans due within 1 years		
Long-term loans due over 1 years	9,080,000.00	11,080,000.00

4. Revenue/operating costs

Item	2018		2017	
	Revenue	Cost	Revenue	Cost
Revenue from main business	1,110,658,761.08	926,099,671.85	1,138,328,762.71	944,003,187.42
Revenue from other business	22,438,968.77	12,762,840.43	15,927,505.25	5,371,873.26
Total	1,133,097,729.85	938,862,512.28	1,154,256,267.96	949,375,060.68

5. Financial expenses

Item	2018	2017
Interest expenses	1,830,859.94	1,020,578.90
Include: Interests on bank loans and interests on other loans fully repayable within 5 years	1,830,859.94	1,020,578.90
Interests on other loans not fully repayable within 5 years		
Interest income	-3,672,267.93	-1,767,119.27
Other	1,394,495.41	226,858.39
Include: Net exchange losses	7,326.32	-79,065.03
Total	-446,912.58	-519,681.98

During 2018 and 2017, there was no interest capitalization.

6. Income tax expenses

Item	2018	2017
Current income tax	700,647.46	5,436,046.82
Deferred income tax	-774,271.95	148,314.51
Total	-73,624.49	5,584,361.33

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries had no profits generated in or arising from Hong Kong in 2018 and 2017.

7. Distribution of profit for 2018

Pursuant to the profit distribution proposal passed at the 6th meeting of the 6th session of the Board of Directors of the Company held on 22 March 2019, the Company will not pay cash dividend, issue bonus shares or increase capital by transferring from capital reserve fund (2017: Nil). The aforementioned profit distribution proposal is subject to approval at annual general meeting.

8. Earnings per share

1) Breakdown

Profit for the reporting period	Earnings per share (RMB/share)			
	Basic earnings per share		Diluted earnings per share	
	2018	2017	2018	2017
Net profit attributable to the ordinary shareholders of the Company	0.0092	0.0414	0.0092	0.0414
Net profit after deducting non-recurring gains and losses attributable to the ordinary shareholders of the Company	-0.0292	0.0175	-0.0292	0.0175

2) Calculations of basic and diluted earnings per share

1. Calculations of basic earnings per share

Item	Number	2018	2017
Net profit attributable to the ordinary shareholders of the Company	A	7,278,368.34	32,656,134.48
Non-recurring gains and losses	B	30,297,018.78	18,805,988.97
Net profit after deducting non-recurring gains and losses attributable to the ordinary shareholders of the Company	C=A-B	-23,018,650.44	13,850,145.51
Total number of shares at beginning	D	789,644,637.00	315,857,855.00
Increase in number of shares due to transfer from reserves to capital or distribution of scrip dividend	E		473,786,782.00
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	12.00
Weighted average number of issued ordinary shares	L=D+E+F×G/K-H×I/K-J	789,644,637.00	789,644,637.00
Basic earnings per shares	M=A/L	0.0092	0. 0414
Basic earnings per share after deducting non-recurring gains and losses	N=C/L	-0.0292	0. 0175

2. Calculations of diluted earnings per share are the same as the calculations of basic earnings per share.

9. Other supplemental information

1) Segmental information – Operating segment

As the operations and assets of both the Company and its subsidiaries are related to automotive steering system and components, and are mainly located in Mainland China where 93.40% of the revenue was generated from domestic sales, no further detailed segmental information needs to be disclosed.

2) Non-recurring gains and losses

1. Breakdown

Item	2018	2017
Gain or loss on disposal of non-current assets, inclusive of provision for assets impairment write-off	11,896,367.95	-689,980.17
Government grants (except for government grants which are closely related to the Company's ordinary business and conforms with the national policies as well as standard amount and quantities or continuous government grants) recognized in gains or losses during the current period	19,967,062.85	13,558,372.54
Gain or loss on entrusted investment or asset management	4,275,660.37	7,975,271.12
Reversal of impairment provisions for receivables subject to individual impairment test	1,202,003.00	999,496.98
Other non-operating income and expenses apart from those stated above	-94,273.88	137,177.00
Sub-total	37,246,820.29	21,980,337.47
Less: Effect on corporate income tax	5,146,716.03	2,511,286.03
Effect on interest of minority shareholders (after tax)	1,803,085.48	663,062.47
Net non-recurring gains or losses attributable to equity holders of the parent	30,297,018.78	18,805,988.97

3) Return on net assets

1. Breakdown

Profit for the reporting period	Weighted average return on net assets ratio (%)
Net profits attributable to the ordinary shareholders of the Company	0.49
Net profits after deducting non-recurring gains or losses attributable to the ordinary shareholders of the Company	-1.56

2. Calculation of weighted average return on net assets ratio

Item	No.	2018
Net profit attributable to ordinary shareholders of the Company	A	7,278,368.34

Non-recurring gains and losses	B	30,297,018.78
Net profit after deducting non-recurring gains and losses attributable to ordinary shareholders of the Company	C=A-B	-23,018,650.44
Net assets at the beginning of the period attributable to ordinary shareholders of the Company	D	1,474,184,392.90
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 calculated 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 calculated from the month after decrease in assets to end of reporting period	H	
Others: Other matters that increase in net assets	I	-2,916,078.43
Others: Number of months from the month after change in assets to end of reporting period	J	4.00
Number of months during the reporting period	K	12.00
Weighted average net assets	L= D+A/2+E× F/K-G×H/K±I×J/K	1,476,851,550.93
Weighted average return on net assets ratio	M=A/L	0.49%
Weighted average return on net assets ratio, after deducting non-recurring gains and losses	N=C/L	-1.56%

4) Depreciation and amortization expenses

Item	2018	2017
Depreciation of fixed assets, oil and gas assets and production related biological assets	70,348,737.35	64,559,912.20
Amortization of intangible assets	7,564,285.95	9,229,126.20
Total	77,913,023.30	73,789,038.40

5) Net current assets and total assets less current liabilities

Item	31 December 2018	31 December 2017
Net current assets	623,638,506.49	689,857,330.13
Total assets less current liabilities	1,544,676,508.62	1,550,030,299.04

6) Important events after the reporting period

There are no important events after the reporting period.

3. PROFIT DISTRIBUTION PROPOSAL FOR 2018

As considered and approved at the Board meeting held on 22 March 2019, the Board proposed not to declare cash dividend, issue bonus shares or increase capital by transferring from capital reserve fund. The profit distribution proposal is subject to approval at the 2018 annual general meeting of the Company.

Reasons for not distributing profits

The Company is mainly engaged in the provision of customized products such as automotive steering assembly products and relevant components to automobile manufacturers meeting their technology and quality requirements. 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.

In light of the characteristics of the automobile industry, the Company usually grants its customers a credit period ranging from 3 to 6 months. Meanwhile, as the steering assembly are customized development products with long preliminary development and experiment cycles, a lot of start-up expenses will be incurred. These products have a higher percentage of special parts, which make stocking complicated. This requires the Company to have sufficient working capitals for daily operation.

In recent years, the automobile industry is developing towards digitalization and intelligent steering. The product mix of the Company is transferring from traditional fuel-driven automobile to hydraulic power steering gears and expanding to new energy automobiles and energy-saving automobiles under the electric power steering (EPS) system. The Company has also achieved fruitful advancements in intelligent steering technology and the research and development of products in intelligent steering automobiles, and unmanned automobiles. The Company is expected to invest additional working capital in an attempt to facilitate market expansion with special focus on the development of new products and new customers. Meanwhile, the Company also needs to invest further capital for product development and testing so as to secure more new projects.

In 2018, affected by the decline in vehicle production and sales volumes in China, increased market competition, product technology update and increased investment of the Company, and other comprehensive factors, the Company's net profit attributable to shareholders of the listed company was approximately RMB7,278,400, representing a significant decrease of 77.71% as compared with last year.

Therefore, in comprehensive consideration of the characteristics of industry where the Company operates, the Company's own operation conditions and development stage, the Board of the Company is of the opinion that the Company needs funds to maintain daily operations of the Company, and a large amount of funds for the development of new technologies and new products, so it is necessary for the Company to retain profits for daily operations as well as development. The Board of the Company believes that realizing the sustainable development of the Company is conductive to safeguarding the interests of all shareholders of the Company, especially minority shareholders. Thus, the Board of the Company proposed not to declare cash dividend, issue bonus shares or increase capital by transferring from reserves for 2018.

Use and using plan of the undistributed profits of the Company

The undistributed profits of the Company in 2018 will roll over to the following year to fulfil the Company's requirement for general working capital and future profit distribution. In the future, the Company will attach great importance to providing returns to its shareholders by ways of cash dividends as always, making reference to various factors relating to profit distribution and from a prospective which is beneficial to the development of the Company and generating returns to shareholders, and actively implement its profit distribution policies in strict compliance with relevant laws and regulations and the Articles of Association of the Company, thus sharing the results of the Company's development with investors.

4. DISCUSSION AND ANALYSIS OF OPERATIONS

(1) REVIEW OF CHINA AUTOMOBILE INDUSTRY

In 2018, production and sales volume of China automobile industry were 27,809,000 units and 28,081,000 units respectively, representing a decrease of 4.20% and 2.80% respectively as compared with last year. Production and sales of passenger cars were 23,529,000 units and 23,710,000 units respectively, representing a decrease of 5.20% and 4.10% respectively as compared with last year. Among these, sales volume of China-brand passenger cars was 9,980,000 units, representing a decrease of 8.00% as compared with last year. Production and sales volume of new energy cars were 1,270,000 units and 1,256,000 units respectively, representing an increase of 59.90% and 61.70% respectively as compared with last year. Production and sales of commercial vehicles were 4,280,000 units and 4,371,000 units respectively, representing an increase of 1.70% and 5.10% respectively as compared with last year. Among commercial vehicles, production and sales volume of buses decreased by 7.00% and 8.00% respectively as compared with last year; production and sales volume of trucks increased by 2.90% and 6.90% respectively as compared with last year. The top ten automaker groups in China sold 25,036,000 units of automobiles, representing a decrease of 2.10% as compared with last year. Their sales represented 89.20% of the total sales of the automobile industry, representing an increase of 0.6 percentage point as compared with last year.

(2) ANALYSIS OF MAIN BUSINESS

1. Overview

During the reporting period, due to the effect of decrease in domestic production and sales of automotive and the intensification of market competition, the Company achieved a revenue of approximately RMB1,133,097,729.85, representing a decrease of 1.83% as compared with last year.

During the reporting period, the gross profit of the Company's main business was RMB184,559,089.23, representing a decrease of RMB9,776,486.06 as compared with last year; the gross profit margin of the Company's main business was 16.62% (2017: 17.07%). The decrease in gross profit margin of the Company was mainly due to the increase in the cost of raw materials procurement, the upgrading of products, the large investment in new technologies and new products, the fact that the market has not yet matured, and the benefits have not yet appeared

During the reporting period, the Company's selling expenses was RMB78,345,952.20, representing an increase of 10.170% as compared with last year. The increase in selling expenses of the Company was mainly due to the increase in transportation costs and warranty expenses.

During the reporting period, the Company's general and administrative expenses were RMB72,020,750.48, representing an increase of 10.55% as compared with last year. The increase in administrative expenses of the Company was mainly due to the increase in labor costs and the increase in service fees paid to external professional organizations.

During the reporting period, the research and development expenses of the Company was RMB 66,456,611.17, representing an increase of 39.41% as compared with last year, mainly due to significantly greater investment of human resource, materials, facilities and otherwise by the Company as a result of a significant increase in the development activities of new technologies and new products. The research and development expenses of the Company were mainly used for safety, intelligent, energy-saving and lightweight technology research of the automobile steering system to maintain the competitive edge of the sustainable development of the Company.

During the reporting period, the Company's financial expenses was RMB -446,912.58 (2017: RMB -519,681.98).

During the reporting period, the Company's other gains amounted to RMB19,967,062.85, which is government grants. The investment gains amounted to RMB4,275,660.37, representing a decrease of 46.39% as compared with last year, which was mainly due to the decrease in purchase of short-term bank wealth management products leading to the decrease in relevant gains. Gains from disposal of assets were RMB11,896,367.95, representing an increase of 1,824.16% as compared with last year, mainly due to the acquisition by the government of the premises of the Company located in Fotang Town, Yiwu City at the consideration of RMB12,043,061.00, which was recorded in gains from disposal of assets.

During the reporting period, the Company's income tax expenses amounted to RMB -73,624.49, representing a decrease of 101.32% as compared with last year, mainly due to the significant decrease in total profit.

In view of the above, the Company recorded a net profit attributable to shareholders of the listed company of RMB7,278,368.34, representing a decrease of 77.71% as compared with last year.

2. Revenue and Cost

1) Composition of revenue

	2018		2017		Change
	Amount	Proportion to revenue	Amount	Proportion to revenue	
Total revenue	1,133,097,729.85	100%	1,154,256,267.96	100%	-1.83%
By industry					
Manufacture of automotive components and parts	1,110,658,761.08	98.02%	1,138,328,762.71	98.62%	-2.43%
Others	22,438,968.77	1.98%	15,927,505.25	1.38%	40.88%
By product					
Steering system and parts	1,068,970,565.77	94.34%	1,086,351,867.97	94.12%	-1.60%
Parts and others	41,688,195.31	3.68%	51,976,894.74	4.50%	-19.79%
Others	22,438,968.77	1.98%	15,927,505.25	1.38%	40.88%

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

	Revenue	Operating costs	Gross profit margin	Change of revenue over last year	Change of operating costs over last year	Change of gross profit margin over last year
By industry						
Manufacture of automotive components and parts	1,110,658,761.08	926,099,671.85	16.62%	-2.43%	-1.90%	-0.45%
By products						
Steering system and parts	1,068,970,565.77	890,018,050.81	16.74%	-1.60%	-1.22%	-0.32%

3) Details of production quantity, sales volume and inventory level of the Company

Industry classification	Project	Unit	2018	2017	Change
Manufacture of automotive components and parts	Sales volume	Unit/Piece	2,081,171	2,212,938	-5.95%
	Production quantity	Unit/Piece	2,063,234	2,271,130	-9.15%
	Inventory level	Unit/Piece	274,537	292,474	-6.13%

4) Composition of operating costs

Product classification	Item	2018		2017		
		Amount	Proportion to operating costs	Amount	Proportion to operating costs	Change
Steering system and parts	Raw materials	685,077,275.22	76.97%	652,858,279.77	72.46%	4.94%
	Labour costs	51,104,838.68	5.74%	64,233,270.59	7.13%	-20.44%
	Manu-facturing expenses	153,835,936.91	17.29%	183,891,193.96	20.41%	-16.34%

3. Cash Flow

Item	2018	2017	Change
Sub-total of cash inflow from operating activities	487,701,921.83	519,469,792.29	-6.12%
Sub-total of cash outflow from operating activities	500,551,565.13	542,324,990.34	-7.70%
Net cash flow from operating activities	-12,849,643.30	-22,855,198.05	43.78%
Sub-total of cash inflow from investing activities	423,242,663.37	1,563,314,215.93	-72.93%
Sub-total of cash outflow from investing activities	469,055,631.50	1,466,163,055.99	-68.01%
Net cash flow from investing activities	-45,812,968.13	97,151,159.94	-147.16%
Sub-total of cash inflow from financing activities	238,400,000.00	132,000,000.00	80.61%
Sub-total of cash outflow from financing activities	219,862,590.25	163,279,895.87	34.65%
Net cash flow from financing activities	18,537,409.75	-31,279,895.87	159.26%
Net increase in cash and cash equivalents	-40,132,528.00	43,095,131.05	-193.13%

During the reporting period, net cash flow from operating activities increased by 43.78% as compared with last year, mainly due to the decrease in tax expense; net cash flow from investing activities decreased by 147.16% as compared with last year, mainly due to the decrease in cash inflows from redemption of bank wealth management products and increase in cash payment for purchase of fixed assets; net cash flow from financing activities increased by 159.26% as compared with last year, mainly due to the increase in bank borrowings and decrease in cash distribution. In view of above, during the reporting period, net increase in cash and cash equivalents decreased by

193.13% as compared with last year.

(3) 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.

	31 December 2018		31 December 2017		Change
	Amount	Percentage of total assets	Amount	Percentage of total assets	
Cash on hand and at bank	129,531,349.92	6.33%	184,342,739.55	8.76%	-2.43%
Notes receivable	142,065,764.04	6.95%	114,302,216.24	5.43%	1.52%
Accounts receivables	468,614,553.04	22.91%	512,761,243.71	24.37%	-1.46%
Inventories	296,617,482.37	14.50%	279,634,663.89	13.29%	1.21%
Fixed assets	648,472,200.05	31.71%	592,681,978.24	28.16%	3.55%
Construction in progress	101,847,457.97	4.98%	119,801,083.84	5.69%	-0.71%

2. Assets and liabilities measured at fair value

Item	As at 1 January 2018	Gains or losses on fair value change for the period	Total fair value change recorded in equity	Impairment for the period	Amount purchased for the period	Amount sold for the period	As at 31 December 2018
Financial assets							
Bank wealth management products	130,000,000.00				325,000,000.00	395,000,000.00	60,000,000.00
Total	130,000,000.00				325,000,000.00	395,000,000.00	60,000,000.00

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

Assets with restrictions in ownership or use rights

Item	Carrying amount at the end of the period	Reason for restriction
Cash on hand and at bank	9,238,164.95	Security deposit for letter of credit and notes pool
Notes receivable	67,562,036.20	Pledge for notes pool
Fixed assets	4,282,883.50	Pledge for loan credit
Intangible assets	3,194,887.61	Pledge for loan credit
Total	84,277,972.26	

4. Financial resources and capital structure

At the end of the reporting period, the amount of total loans and borrowings was RMB29,080,000.00 (31 December 2017: RMB11,080,000.00). Total loans and borrowings increased by RMB18,000,000.00 when compared with the beginning of the year, mainly due to the increase in guaranteed loans. RMB9,080,000.00 of the total loans and borrowings of the Company shall be repaid over 2 years but within 5 years. Loans and borrowings at fixed interest rates amounted to RMB280,000.00 (31 December 2017: RMB280,000.00).

The Company issued 38,200,000 RMB ordinary shares (A Shares) by way of non-public issue in 2014 at issue price of RMB18.46 per share, which raised a gross proceeds of RMB705,172,000.00 and a net proceeds of RMB658,162,877.04 after deducting the related costs. On 11 December 2014, the proceeds were credited into the regulatory proceeds account of the Company. The amount of the proceeds actually utilized by the Company in 2018 was RMB109,548,122.46, and RMB230,000,000.00 was used for temporary supplement of working capital. As at 31 December 2018, balance of proceeds amounted to RMB88,898,083.86, which included the net accumulated amount of interests received from bank deposits and gains from short-term bank wealth management products less bank handling fees and others.

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

The Company monitors capital risk using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. At the end of the reporting period, the Company's gearing ratio was -6.52% (2017: -11.15%).

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

(4) ACQUISITION AND DISPOSAL OF MATERIAL ASSETS AND EQUITY DURING THE YEAR

During the reporting period, the Company did not have any acquisition and disposal concerning material assets and equity.

(5) CAPITAL COMMITMENTS

As at 31 December 2018, other than the following major capital commitments, the Group did not have any other major capital commitments.

Item	31 December 2018	31 December 2017
Material contracts in relation to acquisition of assets contracted but not recognised	98,750,837.23	63,565,872.08

(6) CONTINGENT LIABILITIES

As at 31 December 2018, the Company did not have any significant contingent liabilities.

(7) OUTLOOK INTO THE FUTURE DEVELOPMENT OF THE COMPANY

1. Industry landscape and trend

China's economy shifted from a rapid growth to high-quality development, and the transformation and upgrade of the automobile industry was accelerated. In 2018, affected by policy factors and macro economy, China's vehicle production and sales volumes declined year-on-year, while there was a continued rapid growth of new energy vehicles. In the short term, there were greater pressure, due to the cancellation of the preferential policy for purchase tax, slow-down of the macro economic growth, trade frictions between China and the United States, consumer confidence and other factors. At present, China's automobile industry is still in a popularization period, so there is larger room for growth. The automobile industry has been in a growth period of brand improvement and high-quality development.

2. Development strategy of the Company

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

3. Business plan

During the reporting period, the Company's operating results are within the Company's publicly disclosed performance forecasts.

During the reporting period, electric power steering system products of the Company was continued to be used in passenger vehicles to a larger extent and applied in logistics vehicles in batches for the first time, thus the Company achieved record production and sales volumes of such products. During the reporting period, the Company cooperated with traditional and new automobile manufacturers, large technology companies and otherwise in intelligent driving and self-driving, and provided intelligent steering technology and product support.

In 2018, the Company actively promoted its hydraulic power assisted recirculation ball steering gears for commercial vehicles to European and American high-end commercial vehicle manufacturers, and achieved better results. The Company passed the qualified supplier review by SCANIA and MAN Truck & Bus AG (MAN), both world-famous heavy truck manufacturers. The business of the Company with Daimler Group was expanded from Germany to North America. The Company expects the above overseas business development will contribute to the placing of orders with the Company to support future development in 2019.

In 2019, the automobile industry will still face greater pressure, and considering the significant decrease in the profitability of the Company at present, the Company will adopt more cautious investment strategies, properly slow down the construction of new production lines, adjust and reconstruct old production lines, accelerate the development of new technology, the development and trial production of new products, and properly solve the contradiction between survival and development, and make arrangements for future development.

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

5. OTHER MAJOR EVENTS

During the reporting period, the Company do not have any other major events needed to be disclosed.

6. REMUNERATION POLICY AND TRAINING PLANS

On 31 December 2018, the Group had approximately 1,571 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. In addition, 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.

7. CORPORATE GOVERNANCE

During the reporting period, the Company had been in compliance with the majority of the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules of the Hong Kong Stock Exchange with the exception of code provision A.1.8.

Under code provision A.1.8, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Board has not arranged a liability insurance for the Directors and senior executive 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.

8. AUDIT COMMITTEE

The audit committee of the Company together with the senior management and the external auditors have reviewed the 2018 consolidated results.

9. MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules of Hong Kong Stock Exchange. The Company had made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding directors' securities transactions during the reporting period.

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

As at 31 December 2018, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company.

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

Hangzhou, Zhejiang, the PRC
22 March 2019

As at the date of this announcement, the Board comprises Mr. Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Ms. Liu Xiao Ping as executive Directors; Mr. Zhang Shi Quan and Mr. Zhang Shi Zhong as non-executive Directors; and Mr. Lin Yi, Mr. Guo Kong Hui and Mr. Shum Shing Kei as independent non-executive Directors.