

PKC VEHICLE TECHNOLOGY (SUZHOU) CO., LTD.

AUDITED FINANCIAL STATEMENTS

31 DECEMBER 2018

Important Notice

The attached financial statements have been translated from the statutory financial statements prepared in accordance with Accounting System for Business Enterprises. In case the English version does not conform to the Chinese version, the Chinese version shall prevail.

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## AUDITOR'S REPORT

Ernst & Young Hua Ming (2019) Shen Zi No. 61375445\_I01  
PKC Vehicle Technology (Suzhou) Co., Ltd.

To the Board of Directors of PKC Vehicle Technology (Suzhou) Co., Ltd.:

### (I)Opinion

We have audited the financial statements of PKC Vehicle Technology (Suzhou) Co., Ltd. (the "Company"), which comprise the balance sheet as at 31 December 2018, and the income and profit appropriation statement, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Accounting System for Business Enterprises.

### (II)Basis for opinion

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). 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 the Company in accordance with China Code of Ethics for Certified Public Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### (III)Responsibilities of the management and those charged with governance for the financial statements

The management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with Accounting System for Business Enterprises, and for designing, implementing and maintaining such internal control as the management determines 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 is responsible for assessing the 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 the management either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## AUDITOR'S REPORT (continued)

Ernst & Young Hua Ming (2019) Shen Zi No. 61375445\_I01  
PKC Vehicle Technology (Suzhou) Co., Ltd.

### (IV) 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally 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 an audit in accordance with CSAs, we exercise professional judgement and maintain professional skepticism 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, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- (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 the 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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

AUDITOR'S REPORT (continued)

Ernst & Young Hua Ming (2019) Shen Zi No. 61375445\_I01  
PKC Vehicle Technology (Suzhou) Co., Ltd.

(IV) Auditor's responsibilities for the audit of the financial statements  
(continued)

- (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.

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.

Ernst & Young Hua Ming LLP Chinese Certified Public Accountant: Pan Jianhui  
Suzhou Branch

Chinese Certified Public Accountant: Shi Ao

Suzhou, the People's Republic of China

10 May 2019

PKC Vehicle Technology (Suzhou) Co., Ltd.  
BALANCE SHEET  
31 December 2018  
(Expressed in Renminbi Yuan)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>			
Current assets			
Cash	4	4,833,885.95	4,057,602.73
Accounts receivable	5	12,108,570.02	2,839,832.23
Other receivables	6	239,229.75	769,315.03
Advances to suppliers		299,882.38	319,508.77
Inventories	7	246,273.42	395,201.22
Prepaid expenses		<u>226,556.73</u>	<u>247,545.61</u>
Total current assets		<u>17,954,398.25</u>	<u>8,629,005.59</u>
Fixed assets			
Cost	8	1,110,419.10	1,660,757.72
Less: Accumulated depreciation	8	<u>1,058,746.40</u>	<u>1,496,917.52</u>
Fixed assets, net	8	51,672.70	163,840.20
Construction in progress	9	<u>-</u>	<u>-</u>
Total fixed assets		<u>51,672.70</u>	<u>163,840.20</u>
Intangible and other assets			
Intangible assets	10	34,509.99	108,664.20
Long-term prepayments	11	<u>333,652.29</u>	<u>597,955.37</u>
Total intangible and other assets		<u>368,162.28</u>	<u>706,619.57</u>
<b>TOTAL ASSETS</b>		<u><u>18,374,233.23</u></u>	<u><u>9,499,465.36</u></u>

The notes on pages 11 to 28 form an integral part of these financial statements.

PKC Vehicle Technology (Suzhou) Co., Ltd.  
BALANCE SHEET (continued)  
31 December 2018  
(Expressed in Renminbi Yuan)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<b>LIABILITIES AND OWNER'S EQUITY</b>			
Current liabilities			
Accounts payable		866,493.08	1,155,496.61
Accrued payroll		3,280,486.99	2,735,264.60
Taxes payable	12	209,053.55	192,104.36
Other payables		230,545.04	178,153.32
Accrued expenses		527,991.74	612,340.33
Long-term liabilities due within one year	13	3,431,600.00	-
Total current liabilities		<u>8,546,170.40</u>	<u>4,873,359.22</u>
Long-term liabilities:			
Long-term borrowings	13	68,750,984.35	49,691,023.18
Total long-term liabilities		<u>68,750,984.35</u>	<u>49,691,023.18</u>
<b>TOTAL LIABILITIES</b>		<u><b>77,297,154.75</b></u>	<u><b>54,564,382.40</b></u>
Owner's equity			
Paid-in capital	14	44,044,600.00	40,854,450.00
Retained accumulated losses		<u>(102,967,521.52)</u>	<u>(85,919,367.04)</u>
Total owner's equity		<u>(58,922,921.52)</u>	<u>(45,064,917.04)</u>
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>		<u><b>18,374,233.23</b></u>	<u><b>9,499,465.36</b></u>

The notes on pages 11 to 28 form an integral part of these financial statements.

The financial statements on pages 4 to 28 have been signed by:

General Manager:

Finance Director:

PKC Vehicle Technology (Suzhou) Co., Ltd.  
 INCOME AND PROFIT APPROPRIATION STATEMENT  
 For the Year Ended 31 December 2018  
 (Expressed in Renminbi Yuan)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Revenue from principal operations	15	20,517,254.68	20,674,284.72
Less: Cost of sales		19,503,778.83	24,154,311.41
Taxes and surcharges		<u>35,945.72</u>	<u>9,895.45</u>
Profit/(loss) from principal operations		977,530.13	(3,489,922.14)
Add: Profit from other operations		81,238.50	198,223.49
Less: Operating expenses		49,159.48	71,736.51
General and administrative expenses		13,021,237.94	18,796,754.44
Financial expenses	16	<u>5,906,919.94</u>	<u>(629,673.89)</u>
Operating loss		(17,918,548.73)	(21,530,515.71)
Add: Non-operating income		786,860.93	1,247,015.79
Subsidy income		83,533.32	211,478.76
Less: Non-operating expenses		<u>-</u>	<u>38,608.15</u>
Total loss		(17,048,154.48)	(20,110,629.31)
Less: Income tax	17	<u>-</u>	<u>-</u>
Net loss		<u>(17,048,154.48)</u>	<u>(20,110,629.31)</u>

The notes on pages 11 to 28 form an integral part of these financial statements.



PKC Vehicle Technology (Suzhou) Co., Ltd.  
 STATEMENT OF CASH FLOWS  
 For the Year Ended 31 December 2018  
 (Expressed in Renminbi Yuan)

	<u>Supplementary Information</u>	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from sales of goods or rendering of services		12,774,536.92	26,636,729.25
Refunds of taxes		16,007.65	119,437.95
Cash received relating to other operating activities		<u>854,195.91</u>	<u>1,126,091.57</u>
Sub-total of cash inflows		<u>13,644,740.48</u>	<u>27,882,258.77</u>
Cash paid for goods and services		8,883,115.19	17,986,230.77
Cash paid to and on behalf of employees		20,178,623.62	20,330,881.21
Cash paid for all types of taxes		105,952.78	9,895.45
Cash paid relating to other operating activities		<u>3,606,265.63</u>	<u>5,912,036.66</u>
Sub-total of cash outflows		<u>32,773,957.22</u>	<u>44,239,044.09</u>
Net cash flows from operating activities	(1)	<u>(19,129,216.74)</u>	<u>(16,356,785.32)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<u>120,000.00</u>	<u>4,243,524.29</u>
Sub-total of cash inflows		<u>120,000.00</u>	<u>4,243,524.29</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		<u>-</u>	<u>702,494.27</u>
Sub-total of cash outflows		<u>-</u>	<u>702,494.27</u>
Net cash flows used in investing activities		<u>120,000.00</u>	<u>3,541,030.02</u>

The notes on pages 11 to 28 form an integral part of these financial statements.

PKC Vehicle Technology (Suzhou) Co., Ltd.  
 STATEMENT OF CASH FLOWS (continued)  
 For the Year Ended 31 December 2018  
 (Expressed in Renminbi Yuan)

	<u>Supplementary Information</u>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash paid for distribution of dividends		3,190,150.00	10,289,700.00
Cash received from borrowings		<u>16,565,550.00</u>	<u>3,427,800.00</u>
Sub-total of cash outflows		<u>19,755,700.00</u>	<u>13,717,500.00</u>
Net cash flows used in financing activities		<u>19,755,700.00</u>	<u>13,717,500.00</u>
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH		<u>29,799.96</u>	<u>(300,402.47)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(2)	<u><u>776,283.22</u></u>	<u><u>601,342.23</u></u>

The notes on pages 11 to 28 form an integral part of these financial statements.

PKC Vehicle Technology (Suzhou) Co., Ltd.  
 STATEMENT OF CASH FLOWS (continued)  
 For the Year ended 31 December 2018  
 (Expressed in Renminbi Yuan)

	<u>2018</u>	<u>2017</u>
Supplementary Information to statement of cash flows:		
1. Reconciliation of net profit to cash flows from operating activities		
Net loss	(17,048,154.48)	(20,110,629.31)
Add: Provision for impairment of assets	(109,248.45)	(50,117.33)
Depreciation of fixed assets	94,674.59	585,814.49
Amortization of intangible assets	74,154.21	78,438.19
Amortization of long-term prepayments	264,303.08	2,378,746.15
Gains on disposal of fixed assets, intangible assets and other long-term assets	(102,507.09)	(1,037,614.41)
Financial expense	5,896,211.21	(634,224.03)
Decrease in inventories	258,176.25	2,851,859.96
Increase in operating receivables	(8,698,037.24)	(1,275,705.94)
Increase in operating payables	<u>241,211.18</u>	<u>856,646.91</u>
Net cash flows from operating activities	<u>(19,129,216.74)</u>	<u>(16,356,785.32)</u>
2. Net increase in cash and cash equivalents		
Cash and cash equivalents at end of year	4,833,885.95	4,057,602.73
Less: Cash and cash equivalents at beginning of year	<u>4,057,602.73</u>	<u>3,456,260.50</u>
Net (decrease)/increase in cash and cash equivalents	<u><u>776,283.22</u></u>	<u><u>601,342.23</u></u>

The notes on pages 11 to 28 form an integral part of these financial statements.

PKC Vehicle Technology (Suzhou) Co., Ltd.  
 STATEMENT OF CHANGES IN EQUITY  
 For the Year Ended 31 December 2018  
 (Expressed in Renminbi Yuan)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
PAID-IN CAPITAL:			
At beginning and end of year		40,854,450.00	30,564,750.00
Increase during the year		3,190,150.00	10,289,700.00
At 31 December 2018	14	<u>44,044,600.00</u>	<u>40,854,450.00</u>
RETAINED EARNINGS:			
At beginning of year		(85,919,367.04)	(65,808,737.73)
Net loss for the year		(17,048,154.48)	(20,110,629.31)
At 31 December 2018		<u>(102,967,521.52)</u>	<u>(85,919,367.04)</u>

The notes on pages 11 to 28 form an integral part of these financial statements.

1. Corporate information

PKC Vehicle Technology (Suzhou) Co., Ltd. (the "Company") was established by Finland PKC Group in Suzhou as a wholly foreign-owned enterprise with foreign investment on 19 December 2013 with an operating term of 50 years. The registration number of the Company's business license is No. 91320594086939210G. The registered capital is USD 7,000,000.

The Company commenced operations in December 2013, and it is primarily engaged in the design, development, manufacturing and sales of wiring harness, electrical box, special cable and other related components used for commercial vehicles and other transportation equipment, as well as provision of related services.

2. Going concern assumption

As of the balance sheet date, the Company's net liabilities were Rmb 58,922,921.52. The financial statements have been prepared under the going concern basis as the investor of the Company, PKC Group APAC Limited has undertaken to provide continuing financial support to enable the Company to meet its liabilities as and when they fall due. Therefore, the Company will have sufficient funds to meet its daily working capital requirements for the foreseeable future, and will not encounter going concern problems due to inadequate working capital.

3. Significant accounting policies and estimates

The financial statements have been prepared based on the following accounting policies and estimates, which are in accordance with the Accounting System for Business Enterprises and other related regulations issued by the Ministry of Finance of the People's Republic of China ("PRC").

Accounting system

The Company adopts the Accounting System for Business Enterprises.

Accounting year

The accounting year of the Company is from 1 January to 31 December.

Reporting currency

The Company's reporting and presentation currency is the Renminbi ("Rmb"). Unless otherwise stated, the unit of the currency is Yuan.

3. Significant accounting policies and estimates (continued)

Basis of accounting

The Company's accounts have been prepared on an accrual basis using the historical cost as the basis of measurement. Assets are recorded at cost when they are acquired. Subsequently, if the assets are impaired, impairment provisions are made in accordance with the Accounting System for Business Enterprises.

Foreign currency transaction

Transactions in currencies other than the reporting currency are translated into the reporting currency at the exchange rates quoted by the People's Bank of China (the "reference rates"), prevailing on the first date of the month in which the transactions take place.

Monetary assets and liabilities denominated in foreign currencies are restated into the reporting currency using the rates of exchange (reference rates) ruling at the balance sheet date. The exchange gains or losses are dealt with in the income statement for the year.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value.

Bad debts

Accounts receivable meeting the following criteria are recognized as bad debts:

- the debtor is deceased or has been declared bankrupt and the debts remain uncollectible after considering the assets of the bankrupt or the estate of the deceased debtor;
- debts that are long overdue and there is evidence indicating that the debts are uncollectible or the possibility of collection is remote.

Specific provisions are made to account for bad debt losses on accounts receivable and other receivables. A specific provision refers to an amount that is provided based on the management's assessment of the recoverability of an individual receivable.

3. Significant accounting policies and estimates (continued)

Inventories

Inventories, which include raw materials, finished goods, and low-value consumables, are stated at actual cost when purchased. The cost of inventories issued is determined on the weighted average basis. Low-value consumables are amortized at one hundred percent each upon issuance and disposal.

Inventories are valued at the lower of cost and net realizable value at the balance sheet date. The difference between the cost and the lower net realizable value is stated as a provision. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and estimated expenses and related taxes necessary to make the sales. The net realizable value is determined based on market prices.

The provision for inventories is determined on an individual item basis.

Fixed assets

Fixed assets are tangible assets with high unit costs held by the Company for use in production of goods, supply of services, or for rental and for administrative purposes, and are expected to be used for more than one year.

Fixed assets are recorded at cost when acquired. Depreciation is calculated using the straight-line method. The respective estimated useful lives and estimated residual values of fixed assets are as follows:

<u>Category</u>	<u>Estimated useful life</u>	<u>Estimated residual value (%)</u>	<u>Annual depreciation rate</u>
Small devices and production tools	5 years	0%	20%
Office equipment and electronic equipment	3 years	0%	33%

At the end of the accounting period, fixed assets are carried at the lower of book value and recoverable amount. A provision for impairment of fixed assets is made for any difference between the book value and the lower recoverable amount. The recoverable amount of the fixed assets is the greater of the net selling price and the value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

3. Significant accounting policies and estimates (continued)

Fixed assets (continued)

Gains or losses arising from the disposal, damage, obsolescence, or physical counting of fixed assets are accounted for as non-operating expenses or income in the current year.

Construction in progress

Construction in progress ("CIP") includes all costs incurred during the preparation period before commencement of construction and until the asset is ready for its intended use. These costs include direct materials, direct labor, equipment for installation, construction and installation charges, management fees, gain or loss on trial run production and borrowing costs which are qualified for capitalization. CIP is transferred to fixed assets when the asset is ready for its intended use.

At end of year, CIP is examined on an individual project basis and impairment provisions are made against those projects which have been suspended for a long period of time and the construction of which is not expected to resume within three years; or for any project under construction but considered obsolete in terms of its technology and functionality and there exists significant uncertainty as to whether it will bring future economic benefits to the Company.

Borrowing costs

Borrowing costs include interest, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings. Borrowing costs are charged to the income statement as finance costs as and when incurred.

Intangible assets

Intangible assets are recorded at actual cost on acquisition. The cost of an intangible asset is amortized using the straight-line method starting from the month in which the asset is acquired and over the shortest period of the estimated useful life. Each category of intangible assets is amortized over the following period:

Software	5 years
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3. Significant accounting policies and estimates (continued)

Intangible assets (continued)

At the end of the accounting period, intangible assets are carried at the lower of book value and recoverable amounts. If the recoverable amount is lower than the book value, a provision for impairment on intangible assets is made for the difference.

Long-term prepayments

Long-term prepayments are amortized over the periods from which the Company derives benefits, on a straight-line basis, as follows:

<u>Item</u>	<u>Beneficial period</u>
Leasehold improvements	5 years

Revenue recognition

(1) Revenue from the sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer; the Company maintains neither continuing managerial involvement nor effective control over the goods sold; it is probable that the economic benefits associated with the transaction will flow to the Company; and the relevant amounts of revenue and costs can be measured reliably.

(2) Revenue from the rendering of service

When the provision of services is started and completed within the same fiscal year, revenue is recognized at the time of completion. When the provision of services is started and completed in different accounting years and the outcome of the transaction can be estimated reliably, revenue is recognized at the balance sheet date on the percentage of completion basis; when the outcome of a transaction cannot be estimated reliably, revenue is recognized only to the extent of costs incurred that are expected to be recoverable.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms.

PKC Vehicle Technology (Suzhou) Co., Ltd.  
 NOTES TO FINANCIAL STATEMENTS  
 For the Year Ended 31 December 2018  
 (Expressed in Renminbi Yuan)

3. Significant accounting policies and estimates (continued)

Income tax

Income tax is accounted for using the tax payable method, whereby the income tax provision is calculated based on the applicable income tax rate and the accounting results for the year after adjusting for items which are non-assessable or disallowed in accordance with the relevant tax laws.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. If two or more parties are subject to control from the same party, they are also regarded as related parties.

4. Cash

	2018	2017
Cash in hand	-	7,567.45
Cash in bank	<u>4,833,885.95</u>	<u>4,050,035.28</u>
	<u>4,833,885.95</u>	<u>4,057,602.73</u>

As of the balance sheet date, there is no restricted cash (2017: nil).

5. Accounts receivable

	2018	2017
Accounts receivable	12,108,570.02	2,839,832.23
Less: Bad debt provision	<u>-</u>	<u>-</u>
	<u>12,108,570.02</u>	<u>2,839,832.23</u>

The ageing analysis is as below:

Ageing	2018		Bad debt provision	2017		Bad debt provision
	Balance	%		Balance	%	
Within 1 year	<u>12,108,570.02</u>	<u>100</u>	<u>-</u>	<u>2,839,832.23</u>	<u>100</u>	<u>-</u>
	<u>12,108,570.02</u>	<u>100</u>	<u>-</u>	<u>2,839,832.23</u>	<u>100</u>	<u>-</u>

PKC Vehicle Technology (Suzhou) Co., Ltd.  
 NOTES TO FINANCIAL STATEMENTS  
 For the Year Ended 31 December 2018  
 (Expressed in Renminbi Yuan)

6. Other receivables

	2018	2017
Other receivables	<u>239,229.75</u>	<u>769,315.03</u>

The ageing analysis is as below:

Ageing	2018			2017		
	Balance	%	Bad debt provision	Balance	%	Bad debt provision
Within 1 year	13,633.12	5.70%	-	732,615.03	95.23%	-
1 - 2 years	204,896.63	85.65%	-	14,200.00	1.85%	-
2 -3 years	<u>20,700.00</u>	<u>8.65%</u>	<u>-</u>	<u>22,500.00</u>	<u>2.92%</u>	<u>-</u>
	<u>239,229.75</u>	<u>100.00%</u>	<u>-</u>	<u>769,315.03</u>	<u>100.00%</u>	<u>-</u>

7. Inventories

	2018	2017
Raw materials	723,653.96	1,078,242.04
Goods in transit	128,905.29	-
Finished goods	61,617.76	61,617.76
Low-value consumables	<u>2,003.24</u>	<u>34,496.70</u>
	916,180.25	1,174,356.50
Provisions	<u>(669,906.83)</u>	<u>(779,155.28)</u>
	<u>246,273.42</u>	<u>395,201.22</u>

Inventory provision:

	Opening balance	Additions	Reversals	Closing balance
Raw materials	683,040.82	-	76,754.99	606,285.83
Low-value consumables	34,496.70	-	32,493.46	2,003.24
Finished goods	<u>61,617.76</u>	<u>-</u>	<u>-</u>	<u>61,617.76</u>
	<u>779,155.28</u>	<u>-</u>	<u>109,248.45</u>	<u>669,906.83</u>

The reversal of Rmb 109,248.45 was written off due to the sales or consumption during the year.

PKC Vehicle Technology (Suzhou) Co., Ltd.  
 NOTES TO FINANCIAL STATEMENTS  
 For the Year Ended 31 December 2018  
 (Expressed in Renminbi Yuan)

8. Fixed assets

	Small devices and production tools	Office equipment and electronic equipment	Total
Cost:			
Opening balance	610,314.31	1,050,443.41	1,660,757.72
Write off	<u>550,338.62</u>	<u>-</u>	<u>550,338.62</u>
Closing balance	<u>59,975.69</u>	<u>1,050,443.41</u>	<u>1,110,419.10</u>
Accumulated Depreciation:			
Opening balance	564,058.23	932,859.29	1,496,917.52
Charge for the year	173,39.21	77,335.38	94,674.59
Written back on disposal	<u>532,845.71</u>	<u>-</u>	<u>532,845.71</u>
Closing balance	<u>48,551.73</u>	<u>1,010,194.67</u>	<u>1,058,746.40</u>
Net value:			
31 December 2018	<u>11,423.96</u>	<u>40,248.74</u>	<u>51,672.70</u>
31 December 2017	<u>46,256.08</u>	<u>117,584.12</u>	<u>163,840.20</u>
Fully depreciated but still in use (gross)	<u>11,423.96</u>	<u>40,248.74</u>	<u>51,672.70</u>

The management is of the opinion that no provision for impairment of fixed assets is required at the balance sheet date.

9. Construction in progress

	2018	2017
Opening balance	-	6,837.60
Additions	-	-
Transfer to fixed assets	<u>-</u>	<u>(6,837.60)</u>
Closing balance	<u>-</u>	<u>-</u>

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10. Intangible assets

	Software
Opening balance	108,664.20
Amortization	<u>74,154.21</u>
Closing balance	<u>34,509.99</u>
Cost on acquisition	<u>395,386.39</u>

11. Long-term prepayments

	Leasehold improvements
Opening balance	597,955.37
Amortization	<u>264,303.08</u>
Closing balance	<u>333,652.29</u>

12. Taxes payable

	2018	2017
Withholding of individual income tax	151,262.73	192,104.36
Value added tax	52,536.92	-
Urban Construction Tax	3,677.80	-
Education supplementary tax	<u>1,576.10</u>	<u>-</u>
	<u>209,053.55</u>	<u>192,104.36</u>

The major categories of taxes applicable to the Company and the respective tax rates are as follows:

- (1) Corporate income tax - In accordance with the relevant tax laws in the PRC, the Company is subject to a corporate income tax rate of 25% on its taxable income.

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12. Taxes payable (continued)

The major categories of taxes applicable to the Company and the respective tax rates are as follows (continued):

- (2) Value added tax ("VAT") - In accordance with the relevant tax laws in the PRC, the VAT rate for export sales is 0% and for domestic sales is 16%. VAT is levied at 16% on the invoiced value of sales and is payable by the purchaser. The Company is required to remit the VAT it collects to the tax authority, but may deduct the VAT it has paid on eligible purchases.
- (3) Withholding of individual income tax - In accordance with the relevant tax laws in the PRC, the Company is required to withhold individual income tax on salaries paid to its employees.

13. Long-term borrowings

	2018	2017
Unsecured		
– Related party borrowings	72,182,584.35	49,691,023.18
Less: Due within 1 year	<u>3,431,600.00</u>	<u>-</u>
	<u>68,750,984.35</u>	<u>49,691,023.18</u>

The above long-term borrowings were obtained from its parent company, PKC Group APAC Limited. For each long-term borrowing, the principal is USD 500,000.00 (equivalent to Rmb3,431,600.00), and the interest is charged every six months. The periods and interest rates are as follows:

<u>No.</u>	<u>Principal</u>	<u>Rate</u>	<u>Start date</u>	<u>End date</u>
1	USD 500,000	4.3370%	28 November 2014	28 November 2019
2	USD 500,000	4.3370%	23 January 2015	23 January 2020
3	USD 500,000	4.3370%	28 February 2015	28 February 2020
4	USD 500,000	4.3370%	19 May 2015	19 May 2020
5	USD 500,000	4.3370%	24 July 2015	24 July 2020
6	USD 500,000	4.3370%	28 September 2015	28 September 2020
7	USD 500,000	4.3370%	18 January 2016	18 January 2021

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13. Long-term borrowings (continued)

<u>No.</u>	<u>Principal</u>	<u>Rate</u>	<u>Start date</u>	<u>End date</u>
8	USD 500,000	4.3370%	25 February 2016	25 February 2021
9	USD 500,000	4.3370%	25 April 2016	25 April 2021
10	USD 500,000	4.3370%	15 June 2016	15 June 2021
11	USD 500,000	4.3370%	28 July 2016	28 July 2021
12	USD 500,000	4.9790%	12 October 2016	12 October 2021
13	USD 500,000	4.9790%	19 December 2016	19 December 2021
14	USD 500,000	4.9790%	14 February 2017	14 February 2022
15	USD 500,000	4.3370%	26 March 2018	26 March 2023
16	USD 500,000	4.3370%	4 June 2018	4 June 2023
17	USD 500,000	8.2840%	3 July 2018	3 July 2023
18	USD 500,000	8.2840%	20 August 2018	20 August 2023
19	USD 500,000	8.2840%	14 December 2018	14 December 2023

14. Paid-in capital

Registered:

	<u>2018</u>		<u>2017</u>	
	USD	%	USD	%
PKC Group				
APAC Limited	<u>7,000,000.00</u>	<u>100</u>	<u>7,000,000.00</u>	<u>100</u>

Paid in:

	<u>2018</u>		<u>2017</u>	
	USD	Rmb equivalent	USD	Rmb equivalent
PKC Group				
APAC Limited	<u>7,000,000.00</u>	<u>44,044,600.00</u>	<u>6,500,000.00</u>	<u>40,854,450.00</u>

Jiangsu Huaxing Certified Public Accountants verified the capital contributions of USD 5,000,000 invested before 31 December 2016 and issued the capital verification reports.

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15. Revenue from principal operations

	2018	2017
Sale of goods	6,926,121.87	17,635,563.24
Rendering of services	13,591,132.81	3,038,721.48
	<u>20,517,254.68</u>	<u>20,674,284.72</u>

16. Financial expenses

	2018	2017
Interest income	(5,070.25)	(10,915.81)
Bank charges	15,778.98	15,465.95
Interest expense	2,753,975.93	2,037,369.45
Exchange loss/(gain)	<u>3,142,235.28</u>	<u>(2,671,593.48)</u>
	<u>5,906,919.94</u>	<u>(629,673.89)</u>

17. Income tax

	2018	2017
Income tax for the year	<u>-</u>	<u>-</u>

(1) Income tax for the year

No provision for taxation has been made as the Company does not have any assessable income for the year.



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18. Related party relationships and transactions

Details of the Company's investor which has a controlling interest in the Company:

<u>Name of the investor</u>	<u>Place of incorporation</u>	<u>Equity interest held</u>
PKC Group APAC Limited ("PKC HK")	Hong Kong	100%

The principal related companies with which the Company had transactions with during the year are as follows:

<u>Name of the related company</u>	<u>Relationship</u>
AEES Inc	Company jointly controlled by ultimate holding company
PKC Group Oyj	Company jointly controlled by ultimate holding company
PKC Eseti AS	Company jointly controlled by ultimate holding company
MSSL MIDEASE (FZE)	Company jointly controlled by ultimate holding company
PK CALBES DO BRASIL	Company jointly controlled by ultimate holding company
PKC Group Lithuania, UAB	Company jointly controlled by ultimate holding company
PKC Group Poland Sp. z o. o.	Company jointly controlled by ultimate holding company
Motherson Sumi Systems Limited	Company jointly controlled by ultimate holding company
Motherson Air Travel Agency GmbH	Company jointly controlled by ultimate holding company
MSSL WH System (Thailand) Co., Ltd.	Company jointly controlled by ultimate holding company
PKC Wiring Systems d.o.o. Smederevo	Company invested by ultimate holding company
SMIIEEL (A Unit of Motherson Sumi Systems Limited)	Company invested by ultimate holding company
PKC Wiring system Oyj	Company invested by ultimate holding company
Jiangsu Huakai PKC Wire Harness Co., Ltd.	Joint venture controlled by ultimate holding company

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18. Related party relationships and transactions (continued)

<u>Name of the related company</u>	<u>Relationship</u>
PKC Vehicle Technology (Hefei) Co., Ltd.	Joint venture controlled by ultimate holding company
Hubei Zheng'ao PKC Automotive Wiring Co., Ltd.	Affiliated company controlled by ultimate holding company

Significant transactions between the Company and its related companies during the year are as follows:

(1) Sales and purchases

	2018	2017
<u>Sales of goods</u>		
Hubei Zheng'ao PKC Automotive Wiring Co., Ltd.	2,927,369.95	-
SMIIEI (A Unit of Motherson Sumi Systems Limited)	826,617.18	192,188.19
PKC Vehicle Technology (Hefei) Co., Ltd.	729,874.07	1,757,848.19
MSSL WH System (Thailand) Co., Ltd.	243,252.94	436,099.47
PKC Wiring Systems d.o.o. Smederevo	58,155.36	-
Jiangsu Huakai PKC Wire Harness Co., Ltd.	35,925.52	510,250.59
Motherson Sumi Systems Limited	16,682.71	-
PKC Eseti AS	15,266.93	-
PKC Group Lithuania, UAB	10,627.41	129,223.68
PKC Group Poland Sp. z o. o.	-	121.69
	<u>4,863,815.07</u>	<u>3,025,731.81</u>

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18. Related party relationships and transactions (continued)

Significant transactions between the Company and its related companies during the year are as follows (continued):

(1) Sales and purchases (continued)

	2018	2017
<u>Purchase of raw materials</u>		
PKC Eseti AS	3,659,389.17	7,719,821.92
PKC Group Poland Sp.zo.o	352,900.22	-
MSSL MIDEASE (FZE)	191,529.50	-
Hubei Zheng'ao PKC Automotive Wiring Co., Ltd.	16,035.60	-
Jiangsu Huakai PKC Wire Harness Co., Ltd.	6,740.00	1,335,268.60
PK CALBES DO BRASIL	627.21	-
AEES Inc	-	<u>62,097.47</u>
	<u>4,227,221.70</u>	<u>9,117,187.99</u>

The selling prices and purchasing prices were determined by both parties after taking into account the prevailing market prices.

(2) Property transactions

Properties sold to related parties during the year is as follows:

	2018	2017
<u>Disposal</u>		
Jiangsu Huakai PKC Wire Harness Co., Ltd.	120,000.00	148,060.47
PKC Vehicle Technology (Hefei) Co., Ltd.	-	<u>4,012,034.45</u>
	<u>120,000.00</u>	<u>4,160,094.92</u>

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18. Related party relationships and transactions (continued)

Significant transactions between the Company and its related companies during the year are as follows (continued):

(3) Service income

	2018	2017
PKC Group APAC Limited	9,683,030.68	-
PKC Vehicle Technology (Hefei) Co., Ltd.	2,485,074.37	5,035,705.58
Hubei Zheng'ao PKC Automotive Wiring Co., Ltd.	1,081,827.76	1,170.00
Jiangsu Huakai PKC Wire Harness Co., Ltd.	341,200.00	829,219.00
PKC Group Oyj	10,121.23	19,463.45
Motherson Sumi Systems Limited	2,291.50	-
PKC Wiring system Oyj	-	2,548.93
	<u>13,603,545.54</u>	<u>5,888,106.96</u>

(4) Others

	2018	2017
<u>Service expense</u>		
Motherson Air Travel Agency GmbH	<u>10,306.16</u>	-
<u>Expenses recharged to related parties</u>		
AEES Inc	<u>1,890,883.15</u>	<u>2,048,268.80</u>
<u>Interest expense</u>		
PKC Group APAC Limited	<u>2,753,975.93</u>	<u>2,037,369.45</u>
<u>Long-term borrowings acquired</u>		
PKC Group APAC Limited	<u>16,565,550.00</u>	<u>3,427,800.00</u>

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18. Related party relationships and transactions (continued)

(5) Amounts due from/to related parties

Accounts	Name of related companies	2018	2017
Accounts receivable	PKC Group		
	APAC Limited	9,683,030.68	-
	PKC Vehicle Technology (Hefei) Co., Ltd.	1,549,824.26	1,703,113.02
	Hubei Zheng'ao PKC Automotive Wiring Co., Ltd.	476,490.59	-
	Jiangsu Huakai PKC Wire Harness Co., Ltd.	233,979.59	-
	SMIIEI (A Unit of Motherson Sumi Systems Limited)	100,757.13	221,278.92
	PKC Group Lithuania, UAB	3,559.54	123,369.97
	MSSL WH System (Thailand) Co., Ltd.	-	12,509.07
	PKC Group Oyj	-	1,396.61
		<u>12,047,641.79</u>	<u>2,061,667.59</u>
Accounts payables	PKC Eseti AS	393,808.58	227,858.21
	AEES Inc	119,673.00	169,454.55
	MSSL MIDEASE (FZE)	71,198.84	-
	PKC Group Poland Sp.zo.o	43,499.15	-
	Jiangsu Huakai PKC Wire Harness Co., Ltd.	-	141,496.17
		<u>628,179.57</u>	<u>538,808.93</u>
Long-term liabilities due within one year	PKC Group APAC Limited	<u>3,431,600.00</u>	-
Long-term borrowings	PKC Group APAC Limited	<u>68,750,984.35</u>	<u>49,691,023.18</u>

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18. Related party relationships and transactions (continued)

(5) Amounts due from/to related parties (continued)

Amounts due from/to related companies are interest free, unsecured, and have no fixed terms of repayment.

19. Commitments

Operating lease commitment

The non-cancellable minimum lease payment for each of the next three years subsequent to the balance sheet date and the aggregate minimum lease payment thereafter are as follows:

	2018	2017
The 1st year	915,443.23	857,558.28
The 2nd year	351,257.53	639,903.28
The 3rd year	<u>4,140.00</u>	<u>306,576.14</u>
	<u>1,270,840.76</u>	<u>1,804,037.70</u>

20. Contingencies

As of the balance sheet date, there are no material contingencies.

21. Events occurring after the balance sheet date

As of the date the financial statement approved for issuance, there are no material events occurring after the balance sheet date, which require disclosure in the financial statements or notes thereto.

22. Approval of the financial statements

The financial statements have been authorized for issuance by the board of directors on 10 May 2019.