

Report of the Directors and Audited Financial Statements

PKC GROUP APAC LIMITED

31 December 2020



CERTIFIED TRUE COPY

A handwritten signature in black ink, appearing to be 'EY', is written over a horizontal line.

ERNST & YOUNG

# PKC GROUP APAC LIMITED

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# PKC GROUP APAC LIMITED

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2020.

### Principal activities

The principal activities of the Company have not changed during the year and consisted of the provision of management services to group companies and investment holding.

### Results

The Company's loss for the year ended 31 December 2020 and its financial position at that date are set out in the financial statements on pages 5 to 28.

### Directors

The directors of the Company during the year and up to the date of this report were:

Pankaj Mital  
Wang Yiqian  
Sandrine Lina Waechter (appointed on 12 August 2020)  
Sanna Helena Raatikainen (resigned on 12 August 2020)

There being no provision in the Company's Articles of Association for the retirement of directors by rotation, all existing directors will continue in office for the ensuing year.

### Directors' interests

At no time during the year was the Company, its subsidiary or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

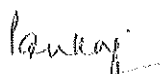
### Directors' interests in transactions, arrangements or contracts

No director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which the Company, its subsidiary or any of its holding companies or fellow subsidiaries was a party during the year.

### Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

  
.....  
Pankaj Mital  
Director

Hong Kong

11 JUN 2021

**Independent auditor's report**  
**To the member of PKC Group APAC Limited**  
(Incorporated in Hong Kong with limited liability)

**Opinion**

We have audited the financial statements of PKC Group APAC Limited (the "Company") set out on pages 5 to 28, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") relevant to these financial statements and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

**Basis for opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. 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 the HKICPA's *Code of Ethics for Professional 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.

**Information other than the financial statements and auditor's report thereon**

The directors are responsible for the other information. The other information comprises the information included in the report of the directors.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the directors for the financial statements**

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with the applicable HKFRSs issued by the HKICPA that are relevant to these financial statements and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Independent auditor's report (continued)**  
**To the member of PKC Group APAC Limited**  
(Incorporated in Hong Kong with limited liability)

**Responsibilities of the directors for the financial statements (continued)**

In preparing the financial statements, the directors are 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 directors either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

**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. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- 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.
- 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 the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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.
- 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.

**Independent auditor's report (continued)**  
**To the member of PKC Group APAC Limited**  
(Incorporated in Hong Kong with limited liability)

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

We communicate with the board of directors 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.



Certified Public Accountants  
Hong Kong

11 JUN 2021

PKC GROUP APAC LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

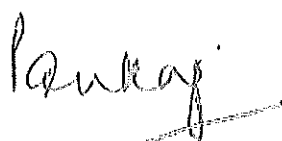
	Notes	2020 HK\$	2019 HK\$
REVENUE	3	21,156,068	27,345,397
Other income and gains	3	31,244,030	28,498,391
Administrative expenses		( 27,849,708)	( 51,667,820)
Impairment losses on an investment in a subsidiary and a loan to a subsidiary	5	( 21,570,008)	( 28,882,078)
Finance costs	4	( 24,909,712)	( 24,644,206)
LOSS BEFORE TAX		( 21,929,330)	( 49,350,316)
Income tax expense	7	-	-
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		( 21,929,330)	( 49,350,316)


PKC GROUP APAC LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK\$	2019 HK\$
<b>NON-CURRENT ASSETS</b>			
Investment in a subsidiary	8	-	-
Investments in joint ventures	9	293,487,944	287,983,793
Loan to a subsidiary	11(c)	-	-
Total non-current assets		<u>293,487,944</u>	<u>287,983,793</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		<u>35,954</u>	<u>4,214,959</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		102,200	188,640
Due to a subsidiary	11(b)	3,124,933	13,138,636
Due to a fellow subsidiary	11(b)	5,303,087	-
Total current liabilities		<u>8,530,220</u>	<u>13,327,276</u>
NET CURRENT LIABILITIES		<u>( 8,494,266)</u>	<u>( 9,112,317)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>284,993,678</u>	<u>278,871,476</u>
<b>NON-CURRENT LIABILITIES</b>			
Loans from the immediate holding company	11(b)	<u>584,796,483</u>	<u>556,744,951</u>
Net liabilities		<u>( 299,802,805)</u>	<u>( 277,873,475)</u>
<b>EQUITY</b>			
Share capital	10	500,000	500,000
Accumulated losses		<u>( 300,302,805)</u>	<u>( 278,373,475)</u>
Net deficiency in assets		<u>( 299,802,805)</u>	<u>( 277,873,475)</u>

  
 Pankaj Mital  
 Director

  
 Wang Yi Qian  
 Director



PKC GROUP APAC LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Share capital HK\$	Accumulated losses HK\$	Net deficiency in assets HK\$
At 1 January 2019	500,000	( 229,023,159)	( 228,523,159)
Loss and total comprehensive loss for the year	<u>-</u>	<u>( 49,350,316)</u>	<u>( 49,350,316)</u>
At 31 December 2019 and at 1 January 2020	500,000	( 278,373,475)	( 277,873,475)
Loss and total comprehensive loss for the year	<u>-</u>	<u>( 21,929,330)</u>	<u>( 21,929,330)</u>
At 31 December 2020	<u>500,000</u>	<u>( 300,302,805)</u>	<u>( 299,802,805)</u>

PKC GROUP APAC LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK\$	2019 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		( 21,929,330)	( 49,350,316)
Adjustments for:			
Finance costs	4	24,909,712	24,644,206
Bank interest income	3	( 18)	( 1,491)
Interest income from a loan receivable	3	( 414,628)	( 3,279,025)
Dividend income from joint ventures	3	( 21,156,068)	( 27,345,397)
Impairment losses on an investment in a subsidiary and a loan to a subsidiary	5	21,570,008	28,882,078
Reversal of impairment losses on a loan to a subsidiary	3	( 28,350,271)	( 22,497,487)
		( 25,370,595)	( 48,947,432)
(Decrease)/increase in an amount due to a subsidiary		( 10,013,703)	2,112,569
Increase in an amount due to a fellow subsidiary		5,303,087	-
Decrease in other payables and accruals		( 86,440)	( 9,763)
Cash used in operations		( 30,167,651)	( 46,844,626)
Bank interest received		18	1,491
Net cash flows used in operating activities		( 30,167,633)	( 46,843,135)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital contribution to a joint venture		( 5,504,151)	-
Repayments of loan from a subsidiary		28,350,959	47,061,848
Net cash flows generated from investing activities		22,846,808	47,061,848
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Increase in an amount from the immediate holding company		3,141,820	1,446,603
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		4,214,959	2,549,643
CASH AND CASH EQUIVALENTS AT END OF YEAR		35,954	4,214,959
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Bank balances		35,954	4,214,959

# PKC GROUP APAC LIMITED

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 1. CORPORATE INFORMATION

PKC Group APAC Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

During the year, the Company was involved in the provision of management services to group companies and investment holding.

The Company is a wholly-owned subsidiary of PKC Wiring Systems Oy, a company incorporated in the Finland. In the opinion of the directors, the Company's ultimate holding company is Motherson Sumi Systems Limited, a company incorporated in India with shares publicly listed on the National Stock Exchange of India Limited ("NSE").

### 2.1 FUNDAMENTAL ACCOUNTING CONCEPT

These financial statements have been prepared on the going concern basis, notwithstanding that the Company had net current liabilities and net liabilities at the end of the reporting period, as the immediate holding company of the Company has agreed not to demand the repayments of loans from the immediate holding company until the Company is in a position to do so and has agreed to provide adequate funds for the Company to meet liabilities as and when they fall due, so as to maintain the Company as a going concern for the foreseeable future.

### 2.2 BASIS OF PREPARATION

For the purposes of compliance with sections 379 and 380 of the Hong Kong Companies Ordinance, these financial statements have been prepared to present a true and fair view of the financial position and financial performance of the Company only. Consequently, they have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which include all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance that are relevant to the preparation of company level financial statements by an intermediate parent company.

As the Company is a holding company that is a wholly-owned subsidiary of another body corporate, it satisfies the exemption criteria set out in section 379(3)(a) of the Hong Kong Companies Ordinance, and is therefore not required to prepare consolidated financial statements.

31 December 2020

## 2.2 BASIS OF PREPARATION (continued)

Given the above, these financial statements are not prepared for the purposes of compliance with HKFRS 10 “Consolidated Financial Statements”, so far as the preparation of consolidated financial statements of the Company and its subsidiaries (together, the “Group”) is concerned. In addition, for the purposes of preparation of company level financial statements, investments in joint ventures have not been accounted for using the equity method which would otherwise be required by HKAS 28 (2011) “Investments in Associates and Joint Ventures” in the preparation of the consolidated financial statements and company level financial statements of a company that is not a holding company. As a consequence, the financial statements do not give all the information required by HKFRS 10 and HKAS 28 (2011) about the economic activities of the group of which the Company is the parent and investor. Furthermore, as these financial statements are prepared in respect of the Company only, HKFRS 12 “Disclosure of Interests in Other Entities” does not apply to the financial statements.

These financial statements have been prepared under the historical cost convention and are presented in Hong Kong Dollars (“HK\$”).

## 2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKAS 1  
and HKAS 8

*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

### Conceptual Framework for Financial Reporting 2018

*Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Company.

31 December 2020

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amendments to HKAS 1 and HKAS 8

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Company.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not applied any of the new and revised HKFRSs, that have been issued but are not yet effective for the accounting year ended 31 December 2020, in these financial statements.

Amendments to HKAS 1                      *Classification of Liabilities as Current or Non-current*<sup>1, 2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>2</sup> As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

31 December 2020

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Company the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Company's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

### Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results of joint ventures are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

### Impairment of non-financial assets

Where an indication of impairment exists or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised for the asset in the prior years.

A reversal of such impairment loss is credited to profit or loss in the period in which it arises, (only if there are revalued assets in the financial statements) unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Company if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Company are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Company are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient of not adjusting the effect of a significant financing component, the Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gain and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.



2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company’s continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

31 December 2020

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets

The Company recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

### *General approach*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

*Simplified approach*

For trade receivables and contract assets that do not contain a significant financing component or when the Company applies the practical expedient of not adjusting the effect of a significant financing component, the Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

*Subsequent measurement*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Company has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

*Other income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

*Dividend income*

Dividend income is when the right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

Foreign currency transactions

These financial statements are presented in HK\$, which is the Company's functional currency. Foreign currency transactions are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates at the dates of the initial transactions.

## 2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is described below.

### *Impairment of loans and receivables*

The Company assesses at the end of each reporting period whether there is any objective evidence that a loan is impaired. To determine whether there is objective evidence of impairment, the Company considers factors including, inter alia, the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

PKC GROUP APAC LIMITED

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3. REVENUE AND OTHER INCOME AND GAINS

Revenue represented dividend income received or receivable from joint ventures during the year.

An analysis of other income and gains are as follows:

	2020 HK\$	2019 HK\$
Bank interest income	18	1,491
Interest income from a loan receivable	414,628	3,279,025
Foreign exchange gains	2,479,113	2,720,388
Reversal of impairment losses on a loan from a subsidiary	<u>28,350,271</u>	<u>22,497,487</u>
	<u>31,244,030</u>	<u>28,498,391</u>

4. FINANCE COSTS

	2020 HK\$	2019 HK\$
Interest on loans from the immediate holding company	<u>24,909,712</u>	<u>24,644,206</u>

5. LOSS BEFORE TAX

The Company's loss before tax is arrived at after charging:

	2020 HK\$	2019 HK\$
Auditor's remuneration	67,000	66,500
Impairment losses on an investment in a subsidiary and a loan to a subsidiary	<u>21,570,008</u>	<u>28,882,078</u>

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NOTES TO FINANCIAL STATEMENTS

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6. DIRECTORS' REMUNERATION

The directors did not receive any fees or emoluments in respect of their services rendered to the Company during the year (2019: Nil).

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Company did not generate any assessable profits arising in Hong Kong during the year (2019: Nil).

A reconciliation of the tax credit applicable to loss before tax at the Hong Kong statutory rate to the tax amount at the Company's effective tax rate is as follows:

	2020 HK\$	2019 HK\$
Loss before tax	<u>( 21,929,330)</u>	<u>( 49,350,316)</u>
Tax credit at the Hong Kong statutory tax rate of 16.5% (2019: 16.5%)	( 3,618,339)	( 8,142,802)
Income not subject to tax	( 8,168,549)	( 8,224,322)
Expenses not deductible for tax	7,669,154	8,831,837
Tax losses not recognised	<u>4,117,734</u>	<u>7,535,287</u>
Tax amount at the Company's effective tax rate	<u>-</u>	<u>-</u>

The Company has tax losses arising in Hong Kong of HK\$137,231,406 (2019: HK\$112,275,442) that are available indefinitely for offsetting against its future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the Company has been loss-making and it is not probable that taxable profits will be available against which the tax losses can be utilised.



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8. INVESTMENT IN A SUBSIDIARY

	2020 HK\$	2019 HK\$
Unlisted investment, at cost	102,876,164	81,720,097
Less: Impairment#	( 102,876,164)	( 81,720,097)
	<u>-</u>	<u>-</u>

Particulars of a subsidiary are as follows:

Name	Place of incorporation/ registration and business	Issued share capital	Percentage of equity directly attributable to the Company		Principal activities
			2020	2019	
PKC Vehicle Technology (Suzhou) Co., Ltd*	People's Republic of China ("PRC")/ Mainland China	CNY 86,697,639	100	100	Sales, manufacturing, research and development of wiring systems in the PRC

\* Audited by Ernst & Young, Suzhou, China.

# Full impairment was recognised for an unlisted investment in a subsidiary with a carrying amount before provision for impairment of HK\$102,876,164 as at 31 December 2020 (2019: HK\$81,720,097). There were certain indicators of impairment for the investment and an impairment was made based on an assessment of the recoverable amount of the investment at the end of the reporting period. The recoverable amount of the investment is its value-in-use, which reflects management's estimate of the expected future cash flows from the investment based on its future prospects and development plan. During the current year, an additional impairment of HK\$21,156,067 (2019: HK\$27,345,397) was made in respect of an investment in a subsidiary.

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9. INVESTMENTS IN JOINT VENTURES

	2020 HK\$	2019 HK\$
Unlisted investments, at cost	302,460,872	302,460,872
Capital contribution to a joint venture	5,504,151	-
Less: Impairment	( 14,477,079)	( 14,477,079)
	<u>293,487,944</u>	<u>287,983,793</u>

Particulars of the joint ventures are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Company		Principal activities
			2020	2019	
Jiangsu Huakai-PKC Wire Harness Co., Ltd.	Ordinary shares	PRC/ Mainland China	50	50	Sales, manufacturing, research and development of automobile wire harness
PKC Vehicle Technology (Hefei) Co., Ltd.	Ordinary shares	PRC/ Mainland China	50	50	Design develop, and manufacturing of wire harness
Hubei Zhengao PKC Automotive Wiring Company Ltd.	Ordinary shares	PRC/ Mainland China	40	40	Sales, manufacturing, research and development of automobile wire harness

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10. SHARE CAPITAL

	2020 HK\$	2019 HK\$
Issued and fully paid:		
500,000 (2019: 500,000) ordinary shares	<u>500,000</u>	<u>500,000</u>

11. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions, arrangements and balances detailed elsewhere in these financial statements, the Company had the following transactions with related parties during the year:

	Notes	2020 HK\$	2019 HK\$
Interest income from a subsidiary	(i)	414,628	3,279,025
Interest expense charged by the immediate holding company	(ii)	24,909,712	24,644,206
Management services fee charged to a subsidiary	(iii)	20,847,609	51,203,730
Management service fee charged to a fellow subsidiary	(iii)	<u>6,747,022</u>	<u>-</u>

Notes:

- (i) The interest income was charged at 4.34% per annum in respect of an amount due from a subsidiary.
- (ii) The interest expense was charged at a range of 3.46% to 9.68% per annum in respect of a loan from the immediate holding company.
- (iii) The management services fee charged by a subsidiary and a fellow subsidiary were based on terms mutually agreed between both parties.
- (b) Other than the loan from the immediate holding company of HK\$584,796,483 (2019: HK\$556,744,951), the other balances are unsecured, interest-free and repayable on demand.
- (c) At 31 December 2020, an impairment loss of HK\$413,941 (2019: HK\$1,536,681) was recognised in respect of a loan to a subsidiary.
- (d) There is no compensation paid to the key management personnel of the Company in respect of their services rendered to the Company during the year (2019: Nil).

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12. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2020 HK\$	2019 HK\$
Financial assets at amortised cost:		
Cash and cash equivalents	<u>35,954</u>	<u>4,214,959</u>

Financial liabilities

	2020 HK\$	2019 HK\$
Financial liabilities at amortised cost:		
Other payables and accruals	102,200	188,640
Due to the subsidiary	3,124,933	13,138,636
Due to the fellow subsidiary	5,303,087	-
Loans from the immediate holding company	<u>584,796,483</u>	<u>556,744,951</u>
	<u>593,326,703</u>	<u>570,072,227</u>

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

At the end of the reporting period, the carrying amounts of the Company's financial assets and financial liabilities reasonably approximated to their fair values largely due to the short-term maturities of these instruments or the effect of discounting is not material.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's exposure to foreign currency risk, credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the Company's financial management policies and practices described below:

## NOTES TO FINANCIAL STATEMENTS

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## 14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Foreign currency risk*

The Company has no significant foreign currency risk because its business is principally conducted in Hong Kong and most of the transactions are denominated in the Company's functional currency. Since the HK\$ is pegged to the United States dollars, the Company's exposure to foreign currency risk in respect of the bank balances denominated in United States dollars is considered to be minimal.

*Credit risk*

The Company's cash and cash equivalents are held in a major financial institution located in Hong Kong, which management believes are of high credit quality. The Company has policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers.

*Liquidity risk*

The Company's objective is to ensure there are adequate funds to meet commitments associated with its financial liabilities. Cash flows of the Company are closely monitored by senior management on an ongoing basis.

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

## Year ended 31 December 2020

	On demand HK\$	1 to 3 years HK\$	Over 3 years HK\$	Total HK\$
Other payables and accruals		102,200	-	102,200
Due to the subsidiary	3,124,933	-	-	3,124,933
Due to the fellow subsidiary	5,303,087	-	-	5,303,087
Amount due to the immediate holding company	-	-	584,796,483	584,796,483
	<u>8,428,020</u>	<u>102,200</u>	<u>584,796,483</u>	<u>593,326,703</u>

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14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Liquidity risk (continued)*

Year ended 31 December 2019

	On demand HK\$	1 to 3 years HK\$	Over 3 years HK\$	Total HK\$
Other payables and accruals		188,640	-	188,640
Due to the fellow subsidiary	13,138,636	-	-	13,138,636
Amount due to the immediate holding company		-	556,744,951	556,744,951
	<u>115,968,387</u>	<u>188,640</u>	<u>556,744,951</u>	<u>570,072,227</u>

*Capital management*

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its operations and maximise shareholder's value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and business strategy. To maintain or adjust the capital structure, the Company may return capital to shareholder or issue new shares. The Company is not subject to any externally imposed capital requirements. No significant changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

Capital of the Company comprises all components of shareholder's equity.

15. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on

11 JUN 2021