

**SMR Automotive Yancheng Co., Ltd.**

**Illustrative Audited Financial Statements**

**Year ended 31 December 2020**

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## AUDITOR'S REPORT

Ernst & Young Hua Ming (2021) Shen Zi No. 61377744\_E01  
SMR Automotive Yancheng Co., Ltd.

To the board of directors of SMR Automotive Yancheng Co., Ltd.

### (I) Opinion

We have audited the financial statements of SMR Automotive Yancheng Co., Ltd. (the "Company"), which comprise the balance sheet as at 31 December 2020, 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with Accounting System for Business Enterprises ("ASBEs").

### (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.

Dalian Branch has been authorized by Ernst & Young Hua Ming (special general partnership)  
headquarters to executive business

## **AUDITOR'S REPORT (CONTINUED)**

Ernst & Young Hua Ming (2021) Shen Zi No.61377744\_E01  
SMR Automotive Yancheng 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 scepticism throughout the audit. We also:

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

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**AUDITOR'S REPORT (CONTINUED)**

Ernst & Young Hua Ming (2021) Shen Zi No.61377744\_E01  
SMR Automotive Yancheng Co., Ltd.

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Ernst & Young Hua Ming LLP Dalian Branch

Chinese Certified Public Accountant:  
Carol Zhou

Chinese Certified Public Accountant:  
Sean Sun

Dalian, the People's Republic of China

14 May 2021

Dalian Branch has been authorized by Ernst & Young Hua Ming (special general partnership)  
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**SMR Automotive Yancheng Co., Ltd.**  
**BALANCE SHEET**  
**Year ended 31 December 2020**

**Expressed in Renminbi Yuan**

<b><u>ASSETS</u></b>	<b><u>Note V</u></b>	<b><u>31 December 2020</u></b>	<b><u>31 December 2019</u></b>
Current assets			
Cash	1	1,067,321.31	6,061,594.19
Notes receivable	2	12,960,000.00	6,490,000.00
Accounts receivable	3	81,379,674.55	50,728,899.00
Prepayments	4	1,182,495.38	2,496,703.82
Other receivables	5	1,894,601.29	2,943,615.11
Inventories	6	34,416,482.19	31,015,282.41
Other current assets	7	<u>2,317,854.78</u>	<u>4,527,184.96</u>
Total current assets		<u>135,218,429.50</u>	<u>104,263,279.49</u>
Non-current assets			
Fixed assets	8	99,524,179.08	106,380,777.60
Construction in progress	9	2,073,238.35	9,071,317.65
Intangible assets	10	4,738,258.05	5,077,507.91
Deferred tax assets	11	<u>176,832.63</u>	<u>3,862,842.20</u>
Total non-current assets		<u>106,512,508.11</u>	<u>124,392,445.36</u>
Total assets		<u><u>241,730,937.61</u></u>	<u><u>228,655,724.85</u></u>

*The accompanying notes to financial statements form an integral part of these financial statements*

**SMR Automotive Yancheng Co., Ltd.**  
**BALANCE SHEET (CONTINUED)**  
Year ended 31 December 2020

Expressed in Renminbi Yuan

<b>LIABILITIES AND EQUITY</b>	<b>Note V</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
Current liabilities			
Short-term loans	12	41,000,000.00	14,428,504.53
Accounts payable		96,676,949.19	75,424,366.62
Employee benefits payable	13	3,839,100.89	3,323,563.95
Taxes and surcharges payable	14	359,238.30	218,571.05
Other payables		7,853,138.20	4,013,746.93
Current portion of non-current liabilities		-	58,015,482.26
Total current liabilities		<u>149,728,426.58</u>	<u>155,424,235.34</u>
Total liabilities		<u>149,728,426.58</u>	<u>155,424,235.34</u>
Equity			
Paid-in capital	15	44,173,465.92	44,173,465.92
Capital reserves	16	723,025.00	723,025.00
Surplus reserves	17	12,042,391.79	10,099,289.64
Unappropriated profit	18	<u>35,063,628.32</u>	<u>18,235,708.95</u>
Total equity		<u>92,002,511.03</u>	<u>73,231,489.51</u>
Total liabilities and equity		<u><u>241,730,937.61</u></u>	<u><u>228,655,724.85</u></u>

The financial statements have been signed by:

Legal representative:

Financial controller:

Accounting supervisor:

*The accompanying notes to financial statements form an integral part of these financial statements*

**SMR Automotive Yancheng Co., Ltd.**  
**INCOME STATEMENT**  
**Year ended 31 December 2020**

	<u>Note V</u>	<u>2020</u>	<u>2019</u>
Revenue	19	371,419,777.15	198,747,872.69
Less: Cost of sales		321,915,827.02	174,120,046.69
Taxes and surcharges		1,270,259.54	484,894.75
Selling expenses		3,689,369.80	1,957,809.66
Administrative expenses		7,336,175.99	7,354,018.28
Research and development expenses		12,353,527.63	11,627,542.25
Finance expenses	20	2,493,527.16	4,038,119.83
Including: Interest expenses		3,365,748.15	3,895,368.56
Interest income		11,112.54	6,759.59
Add: Other income	21	733,722.95	149,350.06
Impairment losses	22	74,381.12	(74,381.12)
Operating profit / (loss)		23,169,194.08	(759,589.83)
Add: Non-operating income		208,049.29	79,730.86
Less: Non-operating expenses		85,821.45	103,081.87
Profit/(Loss) before income taxes		23,291,421.92	(782,940.84)
Less: Income tax expenses	24	3,860,400.40	(3,862,842.20)
Profit		<u>19,431,021.52</u>	<u>3,079,901.36</u>
Including: Profit from continuing operations		<u>19,431,021.52</u>	<u>3,079,901.36</u>
Total comprehensive profit		<u>19,431,021.52</u>	<u>3,079,901.36</u>

*The accompanying notes to financial statements form an integral part of these financial statements.*



SMR Automotive Yancheng Co., Ltd.  
COMPANY STATEMENT OF CHANGES IN EQUITY  
Year ended 31 December 2020

Expressed in Renminbi Yuan

**2020**

		Paid-in capital	Capital reserves	Surplus reserves	Unappropriated profit	Total equity
I.	Balance at end of beginning of year	44,173,465.92	723,025.00	10,099,289.64	18,235,708.95	73,231,489.51
II.	Changes for the year					
1.	Total comprehensive income	-	-	-	19,431,021.52	19,431,021.52
2.	Profit distribution					
a.	Withdraw surplus reserves	-	-	1,943,102.15	(1,943,102.15)	-
b.	Distribution to owners	-	-	-	(660,000.00)	(660,000.00)
III.	Balance at end of year	<u>44,173,465.92</u>	<u>723,025.00</u>	<u>12,042,391.79</u>	<u>35,063,628.32</u>	<u>92,002,511.03</u>

**2019**

		Paid-in capital	Capital reserves	Surplus reserves	Unappropriated profit	Total equity
I.	Balance at end of beginning of year	44,173,465.92	723,025.00	9,791,299.50	15,463,797.73	70,151,588.15
II.	Changes for the year					
1.	Total comprehensive income	-	-	-	3,079,901.36	3,079,901.36
2.	Profit distribution					
a.	Withdraw surplus reserves	-	-	307,990.14	(307,990.14)	-
III.	Balance at end of year	<u>44,173,465.92</u>	<u>723,025.00</u>	<u>10,099,289.64</u>	<u>18,235,708.95</u>	<u>73,231,489.51</u>

The accompanying notes to financial statements form an integral part of these financial statements.

**SMR Automotive Yancheng Co., Ltd.**  
**STATEMENT OF CASH FLOWS**  
**Year ended 31 December 2020**

**Expressed in Renminbi Yuan**

	<b><u>Note V</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>1. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from the sale of goods and the rendering of services		351,566,500.48	199,726,136.17
Receipts of tax and surcharges refunds		22,989,981.58	6,904,879.64
Other cash receipts relating to operating activities		<u>874,763.50</u>	<u>235,840.51</u>
Total cash inflows from operating activities		<u>375,431,245.56</u>	<u>206,866,856.32</u>
Cash payments for goods and services		304,152,160.87	150,270,614.77
Cash payments to and on behalf of employees		28,365,781.12	22,273,472.36
Payments of all types of taxes and surcharges		1,123,619.33	447,344.94
Other cash payments relating to operating activities		<u>4,960,714.13</u>	<u>8,907,160.06</u>
Total cash outflows from operating activities		<u>338,602,275.45</u>	<u>181,898,592.13</u>
Net cash flows from operating activities	25	<u>36,828,970.11</u>	<u>24,968,264.19</u>
<b>2. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<u>6,802,585.99</u>	<u>1,491,993.93</u>
Total cash inflows from investing activities		<u>6,802,585.99</u>	<u>1,491,993.93</u>
Cash payments to acquire fixed assets, intangible assets and other long-term assets		<u>13,628,876.81</u>	<u>39,509,190.31</u>
Total cash outflows from investing activities		<u>13,628,876.81</u>	<u>39,509,190.31</u>
Net cash flows from investing activities		<u>(6,826,290.82)</u>	<u>(38,017,196.38)</u>

*The accompanying notes to financial statements form an integral part of these financial statements.*

**SMR Automotive Yancheng Co., Ltd.**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**Year ended 31 December 2020**

**Expressed in Renminbi Yuan**

	<u><b>Note V</b></u>	<u><b>2020</b></u>	<u><b>2019</b></u>
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from borrowings		<u>78,256,067.13</u>	<u>96,955,002.91</u>
Total cash inflows from financing activities		<u>78,256,067.13</u>	<u>96,955,002.91</u>
Cash repayments for debts		109,700,053.92	84,708,027.42
Cash payments for distribution of dividends or profit and interest expenses		<u>3,549,761.59</u>	<u>3,716,341.12</u>
Total cash outflows from financing activities		<u>113,249,815.51</u>	<u>88,424,368.54</u>
Net cash flows from financing activities		<u>(34,993,748.38)</u>	<u>8,530,634.37</u>
4. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		<u>(3,203.79)</u>	<u>(3,760.39)</u>
5. NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(4,994,272.88)</u>	<u>(4,522,058.21)</u>
Add: Cash and cash equivalents at beginning of year		<u>6,061,594.19</u>	<u>10,583,652.40</u>
6. CASH AND CASH EQUIVALENTS AT END OF YEAR	26	<u><u>1,067,321.31</u></u>	<u><u>6,061,594.19</u></u>

*The accompanying notes to financial statements form an integral part of these financial statements*

**I. General information**

SMR Automotive Yancheng Co., Ltd. ("the Company") was registered in Jiangsu Province, People's Republic of China on 14 November 2002 with an operating term of 30 years. The company's registered address is No.7 Jinshajiang road, economic and technological development zone, Yancheng, Jiangsu Province.

Its principal activity is the production and sales of automotive lighting system and optical mirror system.

The parent company of the company and the ultimate parent company are respectively the SMR Automotive Holding Hong Kong Limited in Hong Kong, China and Samvardhana Motherson International Limited in India.

**II. Basis of preparation of the financial statements**

These financial statements have been prepared in accordance with *Accounting Standards for Business Enterprises - Basic Standard* and specific accounting standards, implementation guidance, interpretations and other relevant provisions issued subsequently by the Ministry of Finance (the "MOF") (collectively referred to as "ASBEs").

The financial statements have been prepared on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant requirements.

Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company have been prepared in accordance with the CAS, and present truly and completely, the Company's financial position as at 31 December 2020 and the Company's results of operations and cash flows for the year then ended.

**III. 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").

**1. Accounting year**

The accounting year of the Company is a calendar year, from 1 January to 31 December of each year.

**III. Significant accounting policies and estimates (continued)**

**2. Functional currency**

The Company's functional and presentation currency is Renminbi ("RMB"). The currency unit is RMB Yuan unless otherwise stated.

**3. Cash and cash equivalents**

Cash comprises the Company's cash on hand and bank deposits that can be readily withdrawn on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

**4. Foreign currency transactions and foreign currency translation**

The Company translates foreign currency transactions into its functional currency.

Foreign currency transactions are initially recorded, on initial recognition in the functional currency using the spot exchange rates prevailing at the dates of transactions. Monetary items denominated in foreign currencies are translated at the spot exchange rates ruling at the balance sheet date. Differences arising on settlement or translation of monetary items are recognised in profit or loss, with the exception of those relating to foreign currency borrowings specifically for the construction and acquisition of qualifying assets, which are capitalised in accordance with the guidance for capitalisation of borrowing costs. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions, and the amount denominated in the functional currency is not changed. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The resulting exchange differences are recognised in profit or loss or other comprehensive income depending on the nature of the non-monetary items.

Foreign currency cash flows are translated using the spot exchange rates prevailing on the dates of cash flows. The effect of exchange rate changes on cash is separately presented as an adjustment item in the statement of cash flows.

**5. Financial instruments**

Recognition and derecognition

The Company recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of a financial instrument.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- (1) the rights to receive cash flows from the financial asset have expired; or
- (2) the Company has transferred its rights to receive cash flows from the financial 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 (i) has transferred substantially all the risks and rewards of the financial asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the financial asset.

**III. Significant accounting policies and estimates (continued)**

**5. Financial instruments (continued)**

Recognition and derecognition (continued)

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.

Regular way purchases and sales of financial assets are recognised and derecognised using trade date accounting. The trade date is the date that the Company committed to purchase or sell a financial asset.

Classification and measurement of financial instruments

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus any directly attributable transaction costs that are attributable to the acquisition of the financial assets and are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from amortisation or impairment are recognised in profit or loss.

The Company recognises a loss for impairment where there is objective evidence that an impairment loss on a financial asset has been incurred. The Company assesses whether impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment has been incurred, an impairment loss is recognised in profit or loss. The Company assesses whether impairment exists for financial assets that are not individually significant, collectively on the basis of groups of financial assets with similar credit risk characteristics or individually. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The carrying amount of the financial asset is reduced to the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) through the use of an allowance account and the loss is recognised in profit or loss. If there is objective evidence of a recovery in the value of the financial asset and the recovery is related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in profit or loss.

*Other financial liabilities*

Such financial liabilities are initially recognised at fair value less any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

**III. Significant accounting policies and estimates (continued)**

**5. Financial instruments (continued)**

Transfer of financial assets

A financial asset is derecognised when the Company has transferred substantially all the risks and rewards of the financial asset to the transferee. A financial asset is not derecognised when the Company retains substantially all the risks and rewards of the financial asset.

When the Company has neither transferred nor retained substantially all the risks and rewards of the financial asset, it either (i) derecognises the financial asset and recognises the assets and liabilities created in the transfer when it has not retained control of the asset; or (ii) continues to recognise the financial asset to the extent of the Company's continuing involvement, in which case, the Company also recognises an associated liability.

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

**6. Inventories**

Inventories are initially carried at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs. Cost is determined on the weighted average basis. Turnover materials include low value consumables and packing materials, which are on the amortisation immediate write-off basis.

At the balance sheet date, inventories are stated at the lower of cost and net realisable value. The inventories are written down below cost to net realisable value and the write-down is recognised in profit or loss if the cost is higher than the net realisable value. When the circumstances that previously caused the inventories to be written down below cost no longer exist, in which case the net realisable value of inventories becomes higher than the carrying amount, the amount of the write-down is reversed. The reversal is limited to the amount of the original write-down and is recognised in profit or loss.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The raw materials, in-process products and finished products shall be accounted for as a single inventory item when the inventory falling price reserves is taken.

### III. Significant accounting policies and estimates (continued)

#### 7. Fixed assets

A fixed asset is recognised only when the economic benefits associated with the asset will probably flow into the Company and the cost of the asset can be measured reliably. Subsequent expenditures incurred for a fixed asset that meets the recognition criteria shall be included in the cost of the fixed asset, and the carrying amount of the component of the fixed asset that is replaced shall be derecognised. Otherwise, such expenditures are recognised in profit or loss as incurred.

Fixed assets are initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for its intended use.

Depreciation is calculated using the straight-line method. The useful lives, estimated residual value rates and annual depreciation rates of each category of the fixed assets are as follows:

	<u>Estimated useful life</u>	<u>Estimated residual value (%)</u>	<u>Annual depreciation rate</u>
Buildings	20 years	10%	4.50%
Machinery	5 years	1%	19.80%
Modelling	5 years	1%	19.80%
Office furniture	5 years	1%	19.80%
Vehicles	4 years	1%	24.75%
Electronic equipment	3 years	1%	33.00%

The Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each year end and make adjustments if necessary.

#### 8. Construction in progress

The cost of construction in progress is determined according to the actual expenditures incurred for the construction, including all necessary construction expenditures incurred during the construction period and other relevant expenditures.

An item of construction in progress is transferred to fixed assets or other long-term assets when the asset is ready for its intended use.

#### 9. Borrowing costs

Borrowing costs are interest and other costs incurred by the Company in connection with the borrowing of the funds. Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. The amounts of other borrowing costs incurred are recognised as an expense in the period in which they are incurred. Qualifying assets are assets (fixed assets, investment properties, inventories, etc.) that necessarily take a substantial period of time of acquisition, construction or production to get ready for their intended use or sale.



### III. Significant accounting policies and estimates (continued)

#### 9. Borrowing costs (continued)

The capitalisation of borrowing costs commences only when all of the following conditions are satisfied:

- (1) expenditures for the asset have been incurred;
- (2) borrowing costs have been incurred; and
- (3) activities that are necessary to acquire, construct or produce the asset for its intended use or sale have been undertaken.

Capitalisation of borrowing costs ceases when the qualifying asset being acquired, constructed or produced gets ready for its intended use or sale. Any borrowing costs subsequently incurred are recognised in profit or loss.

During the capitalisation period, the amount of interest eligible for capitalisation for each accounting period shall be determined as follows:

- (1) where funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of interest eligible for capitalisation is the actual interest costs incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; or
- (2) where funds are borrowed generally for the purpose of obtaining a qualifying asset, the amount of interest eligible for capitalisation is determined by applying a weighted average interest rate on the general borrowings to the weighted average of the excess of the cumulative expenditures on the asset over the expenditures on the asset funded by the specific borrowings.

Capitalisation of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally by activities other than those necessary to get the asset ready for its intended use or sale, when the suspension is for a continuous period of more than 3 months. Borrowing costs incurred during these periods are recognised as an expense in profit or loss until the acquisition, construction or production is resumed.

#### 10. Intangible assets

An intangible asset shall be recognised only when it is probable that the economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably.

The useful life of an intangible asset is determined according to the period over which it is expected to generate economic benefits for the Company. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company.

The useful lives of the intangible assets are as follows:

	Useful life
Computer Software	4 years
Land use right	50 years

An intangible asset with a finite useful life is amortised using the straight-line method over its useful life. For an intangible asset with a finite useful life, the Company reviews the useful life and amortisation method at least at each year end and makes adjustment if necessary.

### III. Significant accounting policies and estimates (continued)

#### 11. Research and development expenditures

The Company classifies the expenditures on an internal research and development project into expenditure on the research phase and expenditure on the development phase. Expenditure on the research phase is recognised in profit or loss as incurred.

Expenditure on the development phase is capitalised only when the Company can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the intention to complete the intangible asset and use or sell it; (iii) how the intangible asset will generate probable future economic benefits (among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset); (iv) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and (v) the ability to measure reliably the expenditure attributable to the intangible asset during the development phase. Expenditure on the development phase which does not meet these above criteria is recognised in profit or loss when incurred.

#### 12. Impairment of assets

The Company determines the impairment of assets, other than the impairment of inventories, deferred tax assets, and financial assets, using the following methods:

The Company assesses at the balance sheet date whether there is any indication that an asset may be impaired. If any indication exists that an asset may be impaired, the Company estimates the recoverable amount of the asset and performs impairment testing.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Company estimates the recoverable amount on an individual basis unless it is not possible to estimate the recoverable amount of the individual asset, in which case the recoverable amount is determined for the asset group to which the asset belongs. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups.

When the recoverable amount of an asset or asset group is less than its carrying amount, the carrying amount is reduced to the recoverable amount by the Company. The reduction in the carrying amount is treated as an impairment loss and recognised in profit or loss. A provision for impairment loss of the asset is recognised accordingly.

Once the above impairment loss is recognised, it cannot be reversed in subsequent accounting periods.

#### 13. Employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Company in exchange for services rendered by employees or for termination of employment. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. Benefits given by the Company to an employee's spouse, children and dependents, family members of deceased employees and other beneficiaries are also employee benefits.

##### Post-employment benefits (defined contribution plan)

The employees of the Company participate in a pension scheme and unemployment insurance managed by the local government, the corresponding expenses shall be included in the cost of related assets or profit or loss.

**III. Significant accounting policies and estimates (continued)**

**14. Revenue**

Revenue is recognised when it is probable that the associated economic benefits will flow into the Company and when the revenue can be measured reliably, on the following bases:

Revenue from the sales of goods

The Company has transferred to the buyer the significant risks and rewards of ownership of the goods; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the associated costs incurred or to be incurred can be measured reliably, and recognised as earned revenue. The amount of revenue arising from the sale of goods is determined in accordance with the consideration received or receivable from the buyer under contract or agreement, except where the consideration received or receivable under contract or agreement is not fair. When the consideration receivable under contract or agreement is deferred, such that the arrangement effectively constitutes a financing transaction, the amount of revenue arising on the sale of goods is measured at the fair value of the consideration receivable.

Interest income

Interest income is recognised on a time proportion basis for which the Company's currency funds are used by others and by the effective interest rate.

**15. Government Grants**

The government subsidy shall be recognized when it meets the attached conditions and can be received. If the government subsidy is a monetary asset, it shall be measured according to the amount received or receivable. If government subsidies are non monetary assets, they shall be measured at fair value; If the fair value cannot be obtained reliably, it shall be measured in nominal amount. The government subsidies related to income, which are used to compensate the related costs or losses in the subsequent period, are recognized as deferred income, and are included in the current profits and losses or offset the related costs during the period when the related costs or losses are recognized; If it is used to compensate the relevant costs or losses incurred, it shall be directly included in the current profits and losses or offset the relevant costs. Government subsidies related to assets shall be used to offset the book value of relevant assets; If the relevant asset is sold, transferred, scrapped or damaged before the end of its service life, the undistributed balance of relevant deferred income shall be transferred to the current profit and loss of asset disposal.

**III. Significant accounting policies and estimates (continued)**

**16. Income tax**

Income tax comprises current and deferred tax. Income tax is recognised as income or expense in profit or loss.

Current tax liabilities or assets arising from the current and prior periods at the amount expected to be paid by the Company or returned by the tax authority calculated according to related tax laws.

Deferred tax is provided using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts, and temporary differences between the tax bases and the carrying amounts of the items, which have a tax base according to related tax laws but are not recognised as assets and liabilities.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

when the taxable temporary difference arises from the initial recognition of goodwill, or an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit or loss;

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

when the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

At the balance sheet date, 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, in accordance with the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the balance sheet date, to recover the assets or settle the liabilities.

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in future periods to allow the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the balance sheet date 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.

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.

**III. Significant accounting policies and estimates (continued)**

**17. Leases**

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset. An operating lease is a lease other than a finance lease.

As lessee of an operating lease

Lease payments under an operating lease are recognised by a lessee on a straight-line basis over the lease term, and either included in the cost of the related asset or charged to profit or loss. Contingent rents are charged to profit or loss as incurred.

**18. Significant accounting judgments, estimates and assumptions**

The preparation of the financial statements requires management to make judgements and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the balance sheet date. However, uncertainty about these assumptions and estimations could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements which have a significant effect on the amounts recognised in the financial statements, such as the recognition of income and the classification of relevant financial instruments.

#### IV. Taxes

Major tax items and rates are as follows:

Value added tax ("VAT")	- VAT payable is the difference between VAT output and less deductible VAT input for the current period. VAT output has been calculated by applying a rate of 13% to the taxable value.
Urban maintenance and construction tax	- It is levied at 7% on the turnover taxes paid
Education surcharge	- The Company is subject to a value which added rate of 3% on its actual payment of value added tax
Local education surcharge	- The Company is subject to a value which added rate of 2% on its actual payment of value added tax
Corporate income tax	- The Company applicable the corporate income tax for the current year is levied at 25%
Withholding of individual Income taxes	- In accordance with the relevant tax laws income tax in the PRC, the Company is required to withhold individual income tax on salaries paid to its employees
Withholding of corporate Income taxes	- In accordance with the relevant tax laws in the PRC, the Company is required to withhold and pay corporate income tax, business tax and VAT in respect of the interest and technology transfer fees payable to foreign investors and overseas related companies.

**V. Notes to major items in the financial statements**

**1. Cash**

	2020	2019
Cash at bank	<u>1,067,321.31</u>	<u>6,061,594.19</u>

There were no restricted cash or bank deposits at the balance sheet date.

**2. Notes receivable**

	2020	2019
Bank acceptance bills	<u>12,960,000.00</u>	<u>6,490,000.00</u>

On the balance sheet date, the company has no restricted ownership of notes receivable.

The management of the company believes that there is no need to make bad debt provision for notes receivable on the balance sheet date.

**3. Accounts receivable**

On the balance sheet date, the ageing of accounts receivable is all within one year. The directors of the company are of the option that no provision for impairment is necessary in respect of accounts receivable.

At 31 December 2020, the total amount of pledged accounts receivable is RMB3,000,000.00 (31 December 2019: RMB14,428,504.53). Refer to note V 12.

**4. Prepayments**

The aging of prepayment is less than one year. The management of the Company considers that no provision for impairment is necessary for Prepayments as at the balance sheet date.

**5. Other receivables**

An ageing analysis of other receivables is as follows:

	2020	2019
Within 1 year	1,856,841.81	2,541,155.63
1 to 2 years	-	29,659.48
2 to 3 years	29,659.48	364,600.00
Over 3 years	<u>8,100.00</u>	<u>8,200.00</u>
	<u>1,894,601.29</u>	<u>2,943,615.11</u>

The management of the Company considers that no provision for impairment is necessary for other receivables as at the balance sheet date.

**V. Notes to major items in the financial statements (continued)**

**6. Inventories**

	2020	2019
Raw materials	24,997,136.40	14,169,981.86
Materials in transit	-	4,726,036.03
Work in process	3,555,590.36	7,137,434.65
Finished goods	<u>5,863,755.43</u>	<u>5,056,210.99</u>
	34,416,482.19	31,089,663.53
Less: Provision for write-down of inventories	<u>-</u>	<u>74,381.12</u>
	<u>34,416,482.19</u>	<u>31,015,282.41</u>

The movements in provision for write-down of inventories are as follows:

2020

	Opening balance	Provision	Decrease		Closing balance
			Reversal	Transfer	
Finished goods	<u>74,381.12</u>	<u>-</u>	<u>-</u>	<u>(74,381.12)</u>	<u>-</u>

2019

	Opening balance	Provision	Decrease		Closing balance
			Reversal	Transfer	
Finished goods	<u>-</u>	<u>74,381.12</u>	<u>-</u>	<u>-</u>	<u>74,381.12</u>

On the balance sheet date, the company has no ownershipship restricted inventories.

**7. Other current assets**

	2020	2019
Pending deduct VAT on purchase	<u>2,317,854.78</u>	<u>4,527,184.96</u>



V. Notes to key items of the consolidated financial statements (continued)

8. Fixed assets

2020

	Buildings	Machinery	Modelling	Electronic equipment Vehicle and Office furniture	Total
Cost					
Opening balance	32,163,838.19	68,010,752.73	51,340,842.35	5,939,664.81	157,455,098.08
Transfers from construction in progress	43,000.00	6,795,918.69	13,701,133.29	746,626.20	21,286,678.18
Disposals or retirements	(21,000.00)	(141,492.26)	(6,832,149.83)	(180,182.01)	(7,174,824.10)
Closing balance	32,185,838.19	74,665,179.16	58,209,825.81	6,506,109.00	171,566,952.16
Accumulated depreciation					
Opening balance	5,618,720.93	19,221,161.69	23,512,577.85	2,721,860.01	51,074,320.48
Depreciation provided during the year	1,620,381.67	9,992,147.72	8,661,440.15	1,142,908.38	21,416,877.92
Disposals or retirements	-	(72,991.14)	(220,004.18)	(155,430.00)	(448,425.32)
Closing balance	7,239,102.60	29,140,318.27	31,954,013.82	3,709,338.39	72,042,773.08
Carrying amount					
At end of year	24,946,735.59	45,524,860.89	26,255,811.99	2,796,770.61	99,524,179.08
At beginning of year	26,545,117.26	48,789,591.04	27,828,264.50	3,217,804.80	106,380,777.60

V. Notes to key items of the consolidated financial statements (continued)

8. Fixed assets (continued)

2019

	Buildings	Machinery	Modelling	Electronic equipment Vehicle and Office furniture	Total
Cost					
Opening balance	30,833,966.91	56,912,455.99	41,142,059.11	4,367,105.43	133,255,587.44
Purchases	-	-	-	1,572,559.38	1,572,559.38
Transfers from construction in progress	1,329,871.28	11,881,344.46	11,356,499.22	-	24,567,714.96
Disposals or retirements	-	(783,047.72)	(1,157,715.98)	-	(1,940,763.70)
Closing balance	32,163,838.19	68,010,752.73	51,340,842.35	5,939,664.81	157,455,098.08
Accumulated depreciation					
Opening balance	3,969,234.81	11,057,465.38	16,923,755.87	1,846,196.37	33,796,652.43
Depreciation provided during the year	1,649,486.12	8,361,575.59	6,738,434.04	875,663.64	17,625,159.39
Disposals or retirements	-	(197,879.28)	(149,612.06)	-	(347,491.34)
Closing balance	5,618,720.93	19,221,161.69	23,512,577.85	2,721,860.01	51,074,320.48
Carrying amount					
At end of year	26,545,117.26	48,789,591.04	27,828,264.50	3,217,804.80	106,380,777.60
At beginning of year	26,864,732.10	45,854,990.61	24,218,303.24	2,520,909.06	99,458,935.01

**V. Notes to key items of the consolidated financial statements (continued)**

**8. Fixed assets (continued)**

There were no restricted fixed assets as at the balance sheet date.

The management of the Company considers that no provision for impairment is necessary for fixed assets as at the balance sheet date.

**9. Construction in progress**

	2020	2019
Opening balance	9,071,317.65	5,911,777.19
Additions	14,288,598.88	27,747,432.41
Transfer to fixed assets	(21,286,678.18)	(24,567,714.96)
Transfer to intangible assets	-	(20,176.99)
Closing balance	<u>2,073,238.35</u>	<u>9,071,317.65</u>

On the balance sheet date, the directors of the company are of the opinion that no provision for impairment is necessary in respect of construction in progress.

**10. Intangible assets**

2020	Land in use	Computer Software	Total
Cost			
Opening and closing balance	<u>5,228,907.72</u>	<u>1,018,072.24</u>	<u>6,246,979.96</u>
Accumulated amortization			
Opening balance	669,996.64	499,475.41	1,169,472.05
Amortization provided for the year	<u>104,602.20</u>	<u>234,647.66</u>	<u>339,249.86</u>
Closing balance	<u>774,598.84</u>	<u>734,123.07</u>	<u>1,508,721.91</u>
Accounting amount			
At end of year	<u>4,454,308.88</u>	<u>283,949.17</u>	<u>4,738,258.05</u>
At beginning of year	<u>4,558,911.08</u>	<u>518,596.83</u>	<u>5,077,507.91</u>

**V. Notes to key items of the consolidated financial statements (continued)**

**10. Intangible assets (continued)**

2019	Land in use	Computer Software	Total
Cost			
Opening balance	5,228,907.72	997,895.25	6,226,802.97
Transfers from construction in progress	-	20,176.99	20,176.99
Closing balance	5,228,907.72	1,018,072.24	6,246,979.96
Accumulated amortization			
Opening balance	565,394.44	245,767.74	811,162.18
Amortization provided for the year	104,602.20	253,707.67	358,309.87
Closing balance	669,996.64	499,475.41	1,169,472.05
Accounting amount			
At end of year	4,558,911.08	518,596.83	5,077,507.91
At beginning of year	4,663,513.28	752,127.51	5,415,640.79

The management of the Company considers that no provision for impairment is necessary for intangible assets as at the balance sheet date.

**11. Deferred tax assets**

	2020	2019
Government grants	176,832.63	214,134.63
Deductible loss	-	3,630,112.29
Impairment losses	-	18,595.28
	<u>176,832.63</u>	<u>3,862,842.20</u>

The company believes that the taxable income amount used to offset the above deductible temporary difference and deductible loss is likely to be generated in the future, so it does recognize the deferred income tax assets of the above items.

**12. Short-term loans**

	2020	2019
Pledge and guarantee loan	<u>41,000,000.00</u>	<u>14,428,504.53</u>

- (1) On 26 October 2020, the Company entered into a credit loan contract with Industrial Bank of Korea (China) Co., Ltd., with highest quota of RMB26,000,000.00, taking the company's receivables of Dongfeng Yueda KIA co., Ltd. as pledge, SMR Automotive Modules Korea Ltd. provides sureship guaranty, term from 26 October 2020 to 26 October 2021 and annual interest at 1-year LPR plus 35 basis points. On December 31, 2020, the company had withdrawn RMB3,000,000.00, and the pledged amount of accounts receivable was RMB3,000,000.00.
- (2) On October 20 2020, the company signed the highest amount of RMB38,000,000.00 loans with Industrial Bank of Korea (China) Co., Ltd., the SMR Automotive Modules Korea Ltd. provide guarantee loan, term from 23 October 2020 to 22 October 2021, the annual interest rate for 5%. On 31 December 2020, the company had withdrawn RMB38,000,000.00, which will mature within one year.

V. Notes to key items of the consolidated financial statements (continued)

13. Employee benefits payable

	2020 Amount payable	31 December 2020 Outstanding amount	2019 Amount payable	31 December 2019 Outstanding amount
Salaries, bonuses, allowances and subsidies	22,901,150.76	3,142,944.41	17,827,461.26	2,886,539.23
Employee welfare	2,883,819.85	-	2,414,331.44	-
Social security	942,040.70	1,492.44	833,206.66	3,459.55
Including: Medical insurance	823,830.65	1,371.20	708,611.83	3,050.36
Work injury insurance	4,741.28	-	41,532.87	136.40
Maternity insurance	113,468.77	121.24	83,061.96	272.79
Housing funds	1,495,289.50	297,586.00	944,311.00	220,658.00
Trade union funds and staff education funds	489,649.00	395,932.92	422,965.21	205,329.15
	<u>28,711,949.81</u>	<u>3,837,955.77</u>	<u>22,442,275.57</u>	<u>3,315,985.93</u>
Defined contribution plan	169,368.25	1,145.12	1,596,090.47	7,578.02
Including: Basic pension insurance	164,235.84	1,077.76	1,549,807.34	7,274.88
Unemployment Insurance	5,132.41	67.36	46,283.13	303.14
	<u>28,881,318.06</u>	<u>3,839,100.89</u>	<u>24,038,366.04</u>	<u>3,323,563.95</u>

14. Taxes payable

	2020	2019
Business income tax	174,390.83	-
Withholding of individual income tax	39,919.54	59,585.34
Withholding of corporate tax	29,975.63	29,421.34
Building Taxes	75,541.06	76,422.59
Land use tax	27,628.42	27,632.56
Others	11,782.82	25,509.22
	<u>359,238.30</u>	<u>218,571.05</u>

**V. Notes to key items of the consolidated financial statements (continued)**

**15. Paid-in capital**

Registered Capital

	2020		2019	
	USD	%	USD	%
SMR Automotive Holding Hong Kong Limited	<u>6,720,000.00</u>	<u>100%</u>	<u>6,720,000.00</u>	<u>100%</u>

Paid-in Capital

	2020		2019	
	USD	RMB	USD	RMB
SMR Automotive Holding Hong Kong Limited	<u>6,720,000.00</u>	<u>44,173,465.92</u>	<u>6,720,000.00</u>	<u>44,173,465.92</u>

The paid-in capital mentioned above has been verified by Chinese certified public accountants and a capital verification report has been issued.

**16. Capital reserves**

2020&2019

	Opening and closing balance
Government grants received	630,000.00
Contribution by owners	<u>93,025.00</u>
	<u>723,025.00</u>

The government grants is received by the company for the purchase of technical renovation equipment in 2017. Contribution by owners is a group of free equipment donated by the subsidiary company of the controlling shareholders received by the company in 2004.

**V. Notes to key items of the consolidated financial statements (continued)**

**17. Surplus reserve**

2020

	Opening balance	Increase	Closing balance
Reserve fund	<u>10,099,289.64</u>	<u>1,943,102.15</u>	<u>12,042,391.79</u>

2019

	Opening balance	Increase	Closing balance
Reserve fund	<u>9,791,299.50</u>	<u>307,990.14</u>	<u>10,099,289.64</u>

According to the provisions of the Company Law and the Company's Articles of Association, the Company appropriates 10% of the net profit to the statutory surplus reserves. Where the accumulated amount of the surplus reserves reaches 50% or more of the Company's registered capital, further appropriation is not required.

After the appropriation to the statutory surplus reserves, the Company may appropriate the discretionary surplus reserves. When approved, the discretionary surplus reserves can be used to make up for accumulated losses or converted to the paid-in capital.

**18. Unappropriated profit**

	2020	2019
Balance at end of the prior year	18,235,708.95	15,463,797.73
Net profit/(loss) for the year	19,431,021.52	3,079,901.36
Less: withdraw surplus reserves	1,943,102.15	307,990.14
Cash dividends payable	660,000.00	-
	<u>35,063,628.32</u>	<u>18,235,708.95</u>

The board of directors of the company held on December 23, 2020, and decided to distribute a cash dividend of RMB 660,000 to the shareholder SMR automotive holding Hong Kong Limited.

**19. Revenue**

Revenue is as follows:

	2020	2019
Primary business	336,937,726.30	184,771,036.62
Other businesses	<u>34,482,050.85</u>	<u>13,976,836.07</u>
	<u>371,419,777.15</u>	<u>198,747,872.69</u>

Revenue is as follows:

	2020	2019
Sales of goods	336,937,726.30	184,771,036.62
Sales of raw materials and wastes	15,693,332.61	11,934,066.07
Sales of models	<u>18,788,718.24</u>	<u>2,042,770.00</u>
	<u>371,419,777.15</u>	<u>198,747,872.69</u>

**V. Notes to key items of the consolidated financial statements (continued)**

**20. Finance expenses**

	2020	2019
Interest expense	3,151,191.74	3,575,479.17
Less: interest income	11,112.54	6,759.59
Less: capitalisd interest	-	60,611.86
Discounted interest expense	214,556.41	380,501.25
Exchange profit	(1,000,261.97)	(17,494.67)
Service charge	139,153.52	167,005.53
	<u>2,493,527.16</u>	<u>4,038,119.83</u>

**21. Other Income**

	2020	2019
Government subsidies related to daily activities	<u>733,722.95</u>	<u>149,350.06</u>

**22. Impairment losses**

	2020	2019
Loss from write-down of inventories	<u>74,381.12</u>	<u>(74,381.12)</u>

**23. Expenses by nature**

Supplemental information of the Company's costs of sales, selling expenses, administrative expenses, and research and development expenses by nature are as followings :

	2020	2019
Consumption of raw materials	269,406,905.99	137,839,128.41
Change of work in progress and finished goods	2,774,299.85	(1,210,773.26)
Payroll	28,881,318.06	24,038,366.04
Depreciation and amortization	21,756,127.78	17,983,469.26
Freight packing expenses	3,082,094.64	3,857,282.44
Research and development expenses	6,610,528.14	4,321,310.93
Others	12,783,625.98	8,230,633.06
	<u>345,294,900.44</u>	<u>195,059,416.88</u>



**V. Notes to key items of the consolidated financial statements (continued)**

**24. Income tax expenses**

	2020	2019
Current tax	174,390.83	-
Deferred tax	<u>3,686,009.57</u>	<u>(3,862,842.20)</u>
	<u>3,860,400.40</u>	<u>(3,862,842.20)</u>

The reconciliation between income tax expenses and profit/(loss) before income taxes is as follows:

	2020	2019
Profit/(loss) before income tax	23,291,421.92	(782,940.84)
Income tax expenses at applicable tax rate	5,822,855.48	(195,735.21)
Undeductible expenses	115,399.40	79,162.21
Wage deduction for disabled persons	(16,258.83)	(15,068.78)
Additional deduction for research and development expenses	(2,061,867.86)	(1,916,802.28)
Recognized deductible loss	<u>272.21</u>	<u>(1,814,398.14)</u>
Tax charged at the Company's effective income tax rate	<u>3,860,400.40</u>	<u>(3,862,842.20)</u>

**25. Cash flows from operating activities**

Reconciliation of net profit to net cash flows from operating activities:

	2020	2019
Net profit	19,431,021.52	3,079,901.36
Add: Provisions for asset impairment	(74,381.12)	74,381.12
Depreciation of fixed assets	21,416,877.92	17,625,159.39
Amortisation of intangible assets	339,249.86	358,309.87
(Profit)/Losses from the disposal of fixed assets	(76,187.21)	101,278.43
Finance expenses	3,368,951.94	3,899,128.95
Increase in inventories	(3,326,818.66)	(13,455,421.49)
Decrease/(increase) in deferred tax assets	3,686,009.57	(3,862,842.20)
Increase in operating receivables	(32,548,223.11)	(15,314,679.79)
Increase in operating payables	<u>24,612,469.40</u>	<u>32,463,048.55</u>
Net cash flows from operating activities	<u>36,828,970.11</u>	<u>24,968,264.19</u>

**V. Notes to key items of the consolidated financial statements (continued)**

**26. Cash and cash equivalents**

	2020	2019
Cash and cash equivalents	1,067,321.31	6,061,594.19
Including: Cash at banks available for payment	<u>1,067,321.31</u>	<u>6,061,594.19</u>
Cash and cash equivalents at end of year	<u>1,067,321.31</u>	<u>6,061,594.19</u>
Cash and cash equivalents at end of year	1,067,321.31	6,061,594.19
Less: Opening balance of cash and cash equivalents	<u>6,061,594.19</u>	<u>10,583,652.40</u>
Net (decrease)/ increase in cash and cash equivalents	<u>(4,994,272.88 )</u>	<u>(4,522,058.21)</u>

**VI. Segment reporting**

**1. Operating segments**

For management purpose, the Company is organised into business units based on their products and services and has only one reportable operating segment: Automotive lighting mirror system business. In order to allocate resources and evaluate performance, the management manages the business results of the business unit as a whole, so the company does not need to report more detailed operating segment information.

**2. Other information**

Information about products and services

Revenue from external customers

	2020	2019
Sales of goods	336,937,726.30	184,771,036.62
Sales of models	18,788,718.24	2,042,770.00
Sales of raw materials and wastes	<u>15,693,332.61</u>	<u>11,934,066.07</u>
	<u>371,419,777.15</u>	<u>198,747,872.69</u>

VI. Segment reporting (continued)

2. Other information (continued)

Geographic information

Revenue from external customers

	2020	2019
South Korea	207,611,592.17	56,818,337.46
Mainland China	135,798,722.18	133,656,509.81
Hungary	14,138,250.04	7,235,203.98
United State of America	8,963,180.74	1,030,373.66
Mexico	3,823,897.10	-
India	1,044,926.40	-
Brazil	39,208.52	7,447.78
	<u>371,419,777.15</u>	<u>198,747,872.69</u>

Non-current assets

In 2019 and 2020, all the non-current assets of the company are located in China.

Information about a major customer

Client information

Revenue (which amounted to 10% or more of the Company's revenue) was derived from sales by the single customers:

	2020	2019
Client A	207,398,503.94	56,500,707.98
Client B	63,869,383.08	71,763,447.63
Client C	51,853,049.90	42,074,266.04
	<u>323,120,936.92</u>	<u>170,338,421.65</u>

**VII. Financial instruments and risk**

**1. Classification of financial instruments**

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

	2020 measured at amortized cost	2019 measured at amortized cost
Cash	1,067,321.31	6,061,594.19
Notes receivable	12,960,000.00	6,490,000.00
Accounts receivable	81,379,674.55	50,728,899.00
Other receivables	1,894,601.29	2,943,615.11
	<u>97,301,597.15</u>	<u>66,224,108.30</u>

Financial liabilities

	2020 Other financial liabilities	2019 Other financial liabilities
Short-term loans	41,000,000.00	14,428,504.53
Long-term loans	-	58,015,482.26
Accounts payable	96,676,949.19	75,424,366.62
Other payables	7,853,138.20	4,013,746.93
	<u>145,530,087.39</u>	<u>151,882,100.34</u>

**2. Transfers of financial assets**

Transferred financial assets that are terminated on recognition

On 31 December 2020, the company has discount bank acceptance draft book value is RMB8,130,000.00 (31 December 2019: RMB7,916,426.00). The book value of the endorsed bank acceptance bill is RMB 1,890,000.00 (31 December 2019: 0). On 31 December 2020, the maturity date is 1 to 12 months. According to the relevant provisions of the bill law, if the acceptance bank refuses to pay, the holder has the right to recourse against the company ("continue to be involved"). The company believes that the company transferred almost all of its risks and rewards, including the risk of default associated with it, and therefore terminates the full recognition of its' and the notes receivable associated with it.

**VII. Financial instruments and risk (continued)**

**3. Risk of financial instruments**

The Company's principal financial instruments include cash trade and short-term loans. The main purpose of these financial instruments is to finance the Company's operations and to provide guarantees to support its operations. The Company has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The Company is exposed to credit risk, liquidity risk and market risk. The Company reviews and agrees policies for managing each of these risks, which are summarised below:

**Credit risk**

Since the Company trades only with recognised and creditworthy third parties and related parties, there is no requirement for collateral. As at 31 December 2020, the Company had certain concentration of credit risk as 86% (31 December 2019: 83%) of the Company's accounts receivable were due from the top 3 customers.

The Company's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

As the balance date, neither the financial assets nor the portfolio of the company was impaired and not overdue.

**Liquidity risk**

The Company applies a planning tool of liquidity circulation to manage liquidity risk of funding shortfalls, which takes both maturity of financial instruments and estimated operating cash flow of the Company into consideration.

The maturity profile of the Company's financial liabilities as at the balance sheet date is as follows:

2020	Within one year
Short-term loans	42,432,416.67
Accounts payable	96,676,949.19
Other payables	7,853,138.20
	<u>146,962,504.06</u>
2019	Within one year
Short-term loans	14,857,306.15
Long-term loans	60,408,620.91
Accounts payable	75,424,366.62
Other payables	4,013,746.93
	<u>154,704,040.61</u>

**VII. Financial instruments and risk (continued)**

**3. Risk of financial instruments (continued)**

**Market risk**

Interest rate risk

At 31 December 2020, if the interest rates on borrowings had been 100 basis points higher/lower, with all other variables held constant, the Company's net profit would have been decreased/increased by RMB410,000.00 (2019: RMB724,439.87 as a result of higher/lower interest expenses on the floating rate borrowings).

Foreign currency risk

The foreign currency risk of the Company was mainly derived from its foreign operating activities. Such risk arises from operating activities when transactions are denominated in a different currency from the Company's functional currency.

If the exchange rate of RMB/KRW had weakened/strengthened by 5%, the Company's net profit would have been decreased/increased by RMB4,046.75 (2019: RMB1,639,342.69 as a result of changes in the fair value of monetary assets and liabilities).

If the exchange rate of RMB/EUR had weakened/strengthened by 5%, the Company's net profit would have been increased/decreased by RMB68,098.40 (2019: RMB156,985.61) as a result of changes in the fair value of monetary assets and liabilities.

If the exchange rate of RMB/USD had weakened/strengthened by 5%, the Company's net profit would have been increased/decreased by RMB121,783.17 (2019: RMB48,197.87) as a result of changes in the fair value of monetary assets and liabilities.

**4. Capital management**

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for owners and to maintain an optimal capital structure to reduce the cost of capital.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to owners, return capital to owners, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the years ended 31 December 2020 and 31 December 2019.

# **VIII. Fair value**

## **1. Fair value of financial instruments**

Management has assessed currency funds, and accounts receivable, other receivables, and accounts payable, other payables and other similar instruments. Given the short-term maturities, the fair values approximate to the carrying values.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of long-term receivables and short-term loans have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. As at 31 December 2020, the default risk of long-term payables and short-term loans is assessed to be not material.

# **IX. Related party relationships and transactions**

## **1. Definition of related parties**

The following parties are the related parties of the Company:

- (1) Parent of the Company;
- (2) Other entities controlled by the parent of the Company;
- (3) Other entities controlled or jointly controlled by the Company's principal individual investors, key management personnel or close family members of such individuals

## **2. Parent and subsidiaries**

Parent company	Origion of registration	Nature	Equity held ratio (%)	Voting ratio (%)	Registered	
					Euro thd	HKS
SMR Automotive Holding Hong Kong Limited	Hong Kong	Investment Holding	100%	100%	2,300.4	1.00

Companies controlled by the ultimate holding company: Motherson Sumi Systems Limited.

## **3. Other related parties**

	Relationship
SMR Automotive Systems USA	Entity under control of the ultimate holding company
SMR Automotive Brasil Ltda	Entity under control of the ultimate holding company
SMR Hyosang Automotive Ltd.	Entity under control of the ultimate holding company
SMR Automotive Modules Korea Ltd.	Entity under control of the ultimate holding company
SMR patents S.A.R.L	Entity under control of the ultimate holding company
MothersonSumi Infotech & Designs Ltd.	Entity under control of the ultimate holding company
SMR Automotive Mirror Tech Hungary	Entity under control of the ultimate holding company
SMR India Automotive	Entity under control of the ultimate holding company
SMR Automotive Mirror Stuttgart	Entity under control of the ultimate holding company
SMR Automotive Vision Systems Mexico	Entity under control of the ultimate holding company
SMR Langfang	Entity under control of the ultimate holding company
SMR Enterprise Management (Shanghai) Co., Ltd.	Entity under control of the ultimate holding company
Chongqing SMR Huaxiang Automotive Prodsuts Co, Ltd.	Entity under common control of the ultimate holding company
Ningbo SMR Huangxiang Automotive Mirrors Co. Limited	Entity under common control of the ultimate holding company

**IX. Related party relationships and transactions (continued)**

**4. Significant transactions between the Company and its related parties**

(1) Sales of goods to related parties

	2020	2019
SMR Automotive Modules Korea Ltd.	191,378,385.31	56,500,707.98
SMR Langfang	51,853,049.90	42,074,266.04
SMR Automotive Mirror Tech Hungary	14,138,250.04	7,235,203.98
SMR Automotive Systems USA	8,620,883.85	1,030,373.66
SMR Automotive Vision Systems Mexico	3,823,897.10	-
Chongqing SMR Huaxiang Automotive Products Co, Ltd.	3,689,626.00	5,957,069.61
SMR India Automotive	1,044,926.40	-
SMR Hyosang Automotive Ltd.	154,080.00	317,629.48
Ningbo SMR Huangxiang Automotive Mirrors Co. Limited	35,518.74	11,315.70
SMR Automotive Brasil Ltda	39,208.52	7,447.78
	<u>274,777,825.86</u>	<u>113,134,014.23</u>

The price of the goods sold by the Company to its related party shall be determined by the parties through negotiation according to the market price.

(2) Purchases of goods from related parties

	2020	2019
SMR Automotive Modules Korea Ltd.	74,937,090.88	28,758,859.52
SMR Langfang	46,777,434.27	15,626,669.31
SMR Hyosang Automotive Ltd.	13,568,207.27	11,206,578.65
	<u>135,282,732.42</u>	<u>55,592,107.48</u>

The price of the goods purchased by the Company from its related party shall be determined by the parties through negotiation according to the market price.

(3) Other transactions

	2020	2019
<u>Sales of fixed asset</u>		
SMR Automotive Modules Korea Ltd.	16,020,118.63	-
SMR Hyosang Automotive Ltd.	59,008.23	-
	<u>16,079,126.86</u>	<u>-</u>
<u>Purchase of fixed asset</u>		
SMR Automotive Modules Korea Ltd.	6,617,066.06	3,788,105.76
SMR Hyosang Automotive Ltd.	1,881,082.67	1,125,123.95
	<u>8,498,148.73</u>	<u>4,913,229.71</u>
<u>Technology development service</u>		
SMR Automotive Modules Korea Ltd.	3,353,908.27	3,407,463.13
	<u>3,353,908.27</u>	<u>3,407,463.13</u>
<u>Trademark fee</u>		
SMR patents S.A.R.L	437,659.29	547,657.95
	<u>437,659.29</u>	<u>547,657.95</u>



IX. Related party relationships and transactions (continued)

4. Significant transactions between the Company and its related parties (continued)

(3) Other transactions (continued)

	2020	2019
<u>Software usage fee</u>		
MotherSumi Infotech & Designs Ltd.	453,271.79	482,519.37
SMR Automotive Mirror Stuttgart	87,360.56	85,416.86
	<u>540,632.35</u>	<u>567,936.23</u>
<u>Consultancy fee</u>		
SMR Enterprise Management (Shanghai) Co., Ltd.	467,310.64	369,056.72
SMR Langfang	39,836.40	18,619.32
	<u>507,147.04</u>	<u>387,676.04</u>
<u>Equipment testing service</u>		
SMR Automotive Modules Korea Ltd.	17,712.98	34,882.80
<u>Working clothes</u>		
SMR Automotive Modules Korea Ltd.	160,684.33	9,331.00
<u>Technology development income</u>		
SMR Langfang	777,474.99	-
<u>Unloading charges</u>		
SMR Automotive Modules Korea Ltd.	318,340.74	146,792.53
<u>Quality claim</u>		
SMR Automotive Modules Korea Ltd.	642,090.11	254,983.89
<u>Income from advanced repair fee</u>		
SMR Automotive Modules Korea Ltd.	255,097.00	-
<u>Advance repair fee</u>		
SMR Automotive Modules Korea Ltd.	7,722.88	73,898.57
SMR Hyosang Automotive Ltd.	67,657.55	-
	<u>75,380.43</u>	<u>73,898.57</u>
<u>Prepaid freight income</u>		
SMR Automotive Modules Korea Ltd.	105,400.29	-
<u>Prepaid freight</u>		
SMR Automotive Modules Korea Ltd.	1,316.92	16,671.72
<u>Pay wages on behalf of others</u>		
SMR Automotive Modules Korea Ltd.	151,896.89	-
<u>Reimbursed travelling expense</u>		
SMR Automotive Modules Korea Ltd.	9,181.49	107,021.89

**IX. Related party relationships and transactions (continued)**

**4. Significant transactions between the Company and its related parties (continued)**

(3) Other transactions (continued)

	2020	2019
<u>Entertainment expenses</u>		
SMR Automotive Modules Korea Ltd.	<u>3,671.12</u>	<u>9,289.22</u>
<u>Reimbursed conference expense</u>		
SMR Automotive Mirror Stuttgart	<u>-</u>	<u>12,985.80</u>
<u>Acceptance of a guarantee</u>		
SMR Automotive Modules Korea Ltd.	<u>64,000,000.00</u>	<u>101,000,000.00</u>

The above transactions were conducted according to the terms of the contracts entered into between the Company and its related parties.

**5. Receivables from/payables to related parties**

	2020	2019
<u>Accounts receivable</u>		
SMR Automotive Modules Korea Ltd.	49,365,658.88	24,041,769.52
Chongqing SMR Huaxiang Automotive Products Co, Ltd.	1,591,107.52	2,342,329.59
SMR Langfang	5,767,965.09	2,296,479.45
SMR Automotive Mirror Tech Hungary	4,382,704.16	3,189,096.36
SMR Automotive Systems USA	2,078,399.85	963,841.17
Ningbo SMR Huangxiang Automotive Mirrors Co. Limited	25,573.49	12,786.74
SMR Automotive Brasil Ltda	1,533.25	7,447.77
SMR Automotive Vision Systems Mexico	1,359,490.24	-
SMR India Automotive	609,393.60	-
	<u>65,181,826.08</u>	<u>32,853,750.60</u>
<u>Accounts payable</u>		
SMR Automotive Modules Korea Ltd.	31,203,934.77	31,859,730.66
SMR Hyosang Automotive Ltd.	3,318,937.62	7,800,702.41
	<u>34,522,872.39</u>	<u>39,660,433.07</u>
<u>Other payables</u>		
SMR Automotive Holding		
Hong Kong Limited	660,000.00	-
SMR patents S.A.R.L	157,419.10	130,766.32
MothersonSumi Infotech & Designs Ltd.	30,514.57	57,821.06
SMR Enterprise Management	48,984.34	35,688.87
	<u>896,918.01</u>	<u>224,276.25</u>

Receivables from/payables to related parties are unsecured, interest-free and have no fixed term of repayment.

**X. Commitments**

	2020	2019
Contracted but not provided for Capital commitments	<u>2,446,451.99</u>	<u>3,799,868.00</u>

**XI. Approval of the financial statements**

The financial statements were approved by the board of directors on 14 May 2021.