

**SMP Automotive Interiors (Beijing) Co., Ltd.**

**Audited Financial Statements**

**31 December 2018**



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## AUDITOR'S REPORT

Ernst & Young Hua Ming (2019) Shen Zi No. 61372682\_E02  
SMP Automotive Interiors (Beijing) Co., Ltd.

To the board of directors of SMP Automotive Interiors (Beijing) Co., Ltd.

### (I) Opinion

We have audited the financial statements of SMP Automotive Interiors (Beijing) Co., Ltd. (the "Company"), which comprise the balance sheet as at 31 December 2018, and the income statement, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Accounting System for Business Enterprises ("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 ASBEs, and for designing, implementing and maintaining such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the management either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

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



## AUDITOR'S REPORT

Ernst & Young Hua Ming (2019) Shen Zi No. 61372682\_E02  
SMP Automotive Interiors (Beijing) 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.



## AUDITOR'S REPORT

Ernst & Young Hua Ming (2019) Shen Zi No. 61372682\_E02  
SMP Automotive Interiors (Beijing) Co., Ltd.

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

- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young Hua Ming LLP Dalian Branch  
Dalian, the People's Republic of China  
14 June 2019



**SMP Automotive Interiors (Beijing) Co., Ltd.**  
**Balance Sheet**  
**31 December 2018**

**(Expressed in Renminbi Yuan)**

<b>ASSETS</b>	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>Current assets:</b>			
Cash and banks	1	29,610,742.82	14,672,878.65
Financial assets at fair value through profit or loss	2	201,685.77	-
Notes receivables and accounts receivables	3	42,565,346.00	121,087,838.80
Prepayments	4	3,299,576.99	2,779,477.15
Other receivables	5	6,751,712.98	2,269,441.47
Inventories	6	25,136,992.03	29,421,532.95
Other non-current assets due within one year	7	13,599,609.00	13,599,609.00
Other current assets		1,475,286.16	-
<b>Total current assets</b>		<b>122,640,951.75</b>	<b>183,830,778.02</b>
<b>Non-current assets:</b>			
Long-term receivables	7	57,468,506.22	75,250,303.68
Fixed assets	8	39,226,619.62	49,410,428.08
Construction in progress		-	4,225,818.75
Intangible assets	9	4,572,619.48	1,607,050.15
Long-term prepayments	10	2,791,522.71	-
Deferred tax assets	11	1,113,455.05	1,465,795.54
Other non-current assets		-	3,279,020.71
<b>Total non-current assets</b>		<b>105,172,723.08</b>	<b>135,238,416.91</b>
<b>TOTAL ASSETS</b>		<b>227,813,674.83</b>	<b>319,069,194.93</b>

*The notes on pages 10 to 45 form an integral part of these financial statements.*

SMP Automotive Interiors (Beijing) Co., Ltd.  
Balance Sheet (continued)  
31 December 2018

(Expressed in Renminbi Yuan)

LIABILITIES AND OWNERS' EQUITY	Notes	2018	2017
<b>Current liabilities:</b>			
Short-term loans	12	25,433,552.93	147,725,516.24
Notes payables and accounts payable		101,841,704.72	137,899,114.57
Payroll payables	13	5,776,702.52	5,562,294.07
Tax payables	14	3,858,720.40	710,412.17
Other payables		6,595,565.72	8,335,540.20
<b>Total current liabilities</b>		<u>143,506,246.29</u>	<u>300,232,877.25</u>
<b>Total liabilities</b>		<u>143,506,246.29</u>	<u>300,232,877.25</u>
<b>Owners' equity:</b>			
Paid-in capital	15	42,510,280.00	42,510,280.00
Surplus reserve	16	4,179,714.85	-
Retained Earnings / (Cumulative losses)	17	<u>37,617,433.69</u>	<u>(23,673,962.32)</u>
<b>Total owners' equity</b>		<u>84,307,428.54</u>	<u>18,836,317.68</u>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<u>227,813,674.83</u>	<u>319,069,194.93</u>

The notes on pages 10 to 45 form an integral part of these financial statements.

**SMP Automotive Interiors (Beijing) Co., Ltd.**  
**Income Statement**  
**Year ended 31 December 2018**

**(Expressed in Renminbi Yuan)**

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<b>Revenue</b>	18	727,282,624.12	649,799,472.89
Less: Cost of sales		597,644,386.88	594,270,456.70
Taxes and surcharges		5,032,402.85	790,767.95
Selling expenses		248,579.32	534,020.33
Administrative expenses		20,274,612.09	17,689,423.90
Research and development expenses		22,353,865.04	-
Financial expenses	19	8,091,888.49	15,284,722.71
Including: Interest expenses		9,463,263.65	7,811,936.69
Interest income		1,793,143.00	695,874.76
Add: Other income		57,212.19	-
Profit arising from changes in fair value		201,685.77	-
Operating profit		73,895,787.41	21,230,081.30
Add: Non-operating income		29,993.29	-
Profit before income taxes		73,925,780.70	21,230,081.30
Less: Income tax expenses	21	8,454,669.84	5,309,230.17
Net profit		65,471,110.86	15,920,851.13
Classified by continuity of operations			
Profit from continuing operations		65,471,110.86	15,920,851.13
Total comprehensive income		65,471,110.86	15,920,851.13

*The notes on pages 10 to 45 form an integral part of these financial statements*

**SMP Automotive Interiors (Beijing) Co., Ltd.**

**Statement of Changes in Equity**

**Year ended 31 December 2018**

**(Expressed in Renminbi Yuan)**

**2018**

	Paid-in capital	Surplus reserve	Retained Earnings /Cumulative losses	Total owner's equity
I. Balance at beginning of year	42,510,280.00	-	(23,673,962.32)	18,836,317.68
II. Changes for the year				
1. Total comprehensive income	-	-	65,471,110.86	65,471,110.86
2. Profit distribution				
(1) Appropriation to surplus reserves	-	4,179,714.85	(4,179,714.85)	-
III. Balance at end of year	42,510,280.00	4,179,714.85	37,617,433.69	84,307,428.54

**2017**

	Paid-in capital	Cumulative losses	Total owner's equity
I. Balance at beginning of year	42,510,280.00	(39,594,813.45)	2,915,466.55
II. Changes for the year			
1. Total comprehensive income	-	15,920,851.13	15,920,851.13
III. Balance at end of year	42,510,280.00	(23,673,962.32)	18,836,317.68

*The notes on pages 10 to 45 form an integral part of these financial statements*

**SMP Automotive Interiors (Beijing) Co., Ltd.**  
**Statement of Cash Flow**  
**Year ended 31 December 2018**

**(Expressed in Renminbi Yuan)**

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from sale of goods or rendering of services		941,438,965.92	678,554,838.12
Cash received relating to other operating activities		<u>1,732,681.97</u>	<u>689,972.76</u>
Sub-total of cash inflows		<u>943,171,647.89</u>	<u>679,244,810.88</u>
Cash paid for goods and services		684,015,264.93	637,062,266.68
Cash paid to and on behalf of employees		37,005,577.13	31,653,618.24
Cash paid for all types of taxes		30,488,304.80	2,749,743.81
Cash paid relating to other operating activities		<u>39,128,610.85</u>	<u>21,519,232.58</u>
Sub-total of cash outflows		<u>790,637,757.71</u>	<u>692,984,861.31</u>
Net cash flows from operating activities	22	<u>152,533,890.18</u>	<u>(13,740,050.43)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		<u>18,482.16</u>	<u>-</u>
Sub-total of cash outflows		<u>18,482.16</u>	<u>-</u>
Cash paid for acquisition of fixed and intangible assets		3,174,235.15	65,811,798.01
Cash paid for investment		<u>2,100,000.00</u>	<u>370,000.00</u>
Sub-total of cash outflows		<u>5,274,235.15</u>	<u>66,181,798.01</u>
Net cash flows from investing activities		<u>(5,255,752.99)</u>	<u>(66,181,798.01)</u>

*The notes on pages 10 to 45 form an integral part of these financial statements.*

**SMP Automotive Interiors (Beijing) Co., Ltd.**  
**Statement of Cash Flow (continued)**  
**Year ended 31 December 2018**

**(Expressed in Renminbi Yuan)**

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received from borrowings		<u>745,731,394.78</u>	<u>546,039,499.40</u>
Sub-total of cash inflows		<u>745,731,394.78</u>	<u>546,039,499.40</u>
Cash repayments of borrowings		<u>868,023,358.09</u>	<u>537,341,475.22</u>
Cash repayments of interest		<u>10,043,738.65</u>	<u>8,876,380.15</u>
Sub-total of cash outflows		<u>878,067,096.74</u>	<u>546,217,855.37</u>
Net cash flows from financing activities		<u>(132,335,701.96)</u>	<u>(178,355.97)</u>
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH		<u>(4,571.06)</u>	<u>144,057.62</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>14,937,864.17</u>	<u>(79,956,146.79)</u>
Add: Cash and cash equivalents at beginning of the year		<u>14,672,878.65</u>	<u>94,629,025.44</u>
Cash and cash equivalents at end of the year	23	<u><u>29,610,742.82</u></u>	<u><u>14,672,878.65</u></u>

*The notes on pages 10 to 45 form an integral part of these financial statements.*

**I. Corporate information**

SMP Automotive Interiors (Beijing) Co., Ltd. (the "Company") was registered in Beijing, People's Republic of China on 31 March 2014 with an operating term of 30 years. The Company's registered address is 1-101, Building 6, Yard 2, Street Rongxing North 1, Economic & technology development zone, Beijing.

The principal activity of the Company is production and sales of automotive door panel interiors.

The parent company of the Company and the ultimate parent company are respectively the Samvardhana Motherson Automotive Systems Group B.V. in Netherland and Motherson Sumi Systems Limited in India.

**II. Basis of financial statements**

The financial statements have been prepared 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").

As at 31 December 2018, the net current liabilities of the Company amounted RMB20,865,294.54. The financial statements have been prepared under the going concern basis as the Company has sufficient unused credit limit which is guaranteed by parent company. Therefore, the Company will have sufficient funds to meet its daily working capital requirements for the foreseeable future, and will not encounter going concern problems due to inadequate working capital.

The financial statements have been prepared under the historical cost convention. If the assets are impaired, corresponding provisions for impairment should be provided in accordance with the relevant regulations.

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 2018 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 ASBEs.

**1. Accounting year**

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

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

**2. Reporting currency**

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

**3. Cash and cash equivalents**

Cash represents the Company's cash on hand and cash at bank withdrawable on demand. Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value.

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

The Company translates foreign currencies into the reporting currency when foreign currency transactions occur.

Foreign currency transactions are initially recorded using the functional currency rate ruling at the dates of the transactions. Monetary items denominated in foreign currencies are translated into functional currency at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognized in the income statement. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the foreign exchange rate at the transaction date.

Foreign currency cash flows are translated using the spot exchange rate when the cash flows occur. 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

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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 Company's statement of financial position) when:

III. Significant accounting policies and estimates (continued)

5. Financial instruments (continued)

Recognition and derecognition (continued)

- (1) the rights to receive cash flows from the asset have expired; or
- (2) 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.

If the underlying obligation of a financial liability has been discharged or cancelled or has expired, the financial liability is derecognised. If an existing financial liability is replaced by the same creditor with a new financial liability that has substantially different terms, or if the terms of an existing financial liability are substantially revised, such replacement or revision is accounted for as the derecognition of the original liability and the recognition of a new liability, and the resulting difference is recognised in profit or loss for the current period.

Regular way purchases or sales of financial assets are recognised and derecognised on the trade date. Regular way purchases or sales of financial assets mean that the financial assets are received or delivered under the terms of a contract within a period as specified by regulations or convention in the marketplace. Trade date is the date that the Company commits to purchase or sell the asset.

Classification and measurement of financial assets

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are recognised initially at fair value, with transaction costs taken directly to profit or loss, and are subsequently remeasured at fair value. All the realised and unrealised gains or losses are recognised in profit or loss. Dividend income or interest income relating to financial assets at fair value through profit or loss is recognised in profit or loss.

*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.

III. Significant accounting policies and estimates (continued)

5. Financial instruments (continued)

Classification and measurement of financial assets (continued)

*Loans and receivables (continued)*

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 financial assets with similar credit risk characteristics. 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 company 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*

After initial recognition, such financial liabilities are measured at amortised cost by using the effective interest method.

III. Significant accounting policies and estimates (continued)

5. Financial instruments (continued)

Transfer of financial assets

If The Company has transferred substantially all of the risks and rewards related to the ownership of a financial asset to the transferee, the Company derecognises the financial asset. However, if it has substantially retained all of the risks and rewards related to the ownership of a financial asset, the Company continues to recognise the asset.

When the Company does not either transfer substantially or retain all of the risks and rewards related to the ownership of a financial asset, according to the specific circumstance, the Company treats it as following:

- If the Company waives control over the financial asset, the Company derecognises the financial asset; and
- If the Company does not waive control over the financial asset, the Company should recognize and determine relevant liability according to involvement of the transferred financial asset.

Derivative financial instruments

The Company uses derivative financial instruments such as forward currency contracts and forward product contract, which are used to hedge the risks associated with exchange rates and product prices respectively. Such derivative financial instruments are initially recognised at fair value on the date of the contract signed and subsequently measured by fair value. Derivative with positive value is considered as an asset, similiarly, derivative with negative value is considere as a liability. However, for financial instruments without clarified price in active market, and the fair value cannot be measured with reliable equity instrument or must be measured by sacrificing the equity instrument, the values is measured at cost.

Any gains or losses arised from changes in fair value on derivatives should be recorded in income statement directly.

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

**6. Inventories**

Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, cost of conversion and other costs. The cost of inventories transferred out is determined on the weighted average basis. Low-value consumables are expensed in full when issued for use.

At the balance sheet date, inventories are stated at the lower of cost and net realizable value. If the cost of inventories is higher than the net realizable value, a provision is made in profit or loss. If factors that previously resulted in the provision for the inventories disappear and make the net realizable value higher than their carrying amount, the amount of the write-down is reversed, to the extent of the amount of the provision for the inventories, and the reversed amount is recognized in profit or loss for the current period.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and estimated expenses and related taxes necessary to make the sales. The provision for inventories is determined on an individual item basis.

**7. Fixed assets**

Fixed assets are recognised only when the economic benefits relating to the fixed assets are likely to flow into the Company and the cost of the fixed assets can be measured reliably. Expenditure incurred after fixed assets have been put into operation is normally charged to the income statement during the period in which it is incurred, unless in certain situations the expenditure is capitalised as an additional cost of that asset or as a replacement.

Fixed assets are initially measured at cost. The cost of a purchased fixed asset includes the purchase price, relevant taxes and other disbursements that bring the fixed asset to the expected conditions for use and that is attributed to the fixed asset.

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

**7. Fixed assets (continued)**

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

Category	Estimated useful life	Estimated residual value	Annual depreciation rate
Buildings	5-10 years	5%	9.50%-19.00%
Machinery	3-10 years	5%	9.50%-31.67%
Office furniture	3-10 years	5%	9.50%-31.67%

The Company reviews the fixed assets' useful life, residual values and depreciation method, and adjusts if appropriate, at least at each balance sheet date.

**8. Construction in progress**

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

Construction in progress is transferred to fixed assets or long-term assets when the asset is ready for its intended use.

**9. Borrowing costs**

Borrowing costs are interests and other expenses arising from borrowings of the Company, including interests, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs are directly attributable to construction or production of all qualifying assets are capitalised and other borrowing costs are treated as expenses.

III. Significant accounting policies and estimates (continued)

10. Intangible assets

An intangible asset is recognised only when the economic benefits associated with the asset will probably flow to the Company and the cost of the asset can be measured reliably. Intangible assets are initially measured at cost.

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:

	Estimated life
Computer Software	10 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 financial year-end and makes adjustment if necessary.

11. Impairment of assets

The Company determines the impairment of assets except for inventories, deferred tax and financial assets as follows:

The Company assessed whether an indication of impairment exists as at the balance sheet date, and performed impairment test on estimation of the asset's recoverable amount if such indications exist.

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and the present value of estimated future cash flows of the assets. The recoverable amount is calculated for an individual asset unless it is not applicable, in which case, the recoverable amount is determined for the asset groups to which the asset belongs. The asset group is recognised based on whether the cash inflows generated by the asset groups are largely independent to that of other assets or asset groups.

When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction amount is charged to the income statement and an impairment allowance is provided.

Impairment losses cannot be reversed in the prospective accounting periods.

III. Significant accounting policies and estimates (continued)

12. Employee benefits

Employee benefits are all forms of considerations given and other relevant expenditures incurred by the Group in exchange for services rendered by employees. Employee benefits include short-term employee benefits, post-employee benefits, termination benefits and other long-term employee benefits. Employee benefits also include the welfare given to the spouse, children, dependents, the deceased employee survivors and other beneficiaries.

Post-employment benefit (defined contribution plans)

The Company's employees participate in a government-regulated defined contribution pension scheme. The contributions are charged as a cost of asset or an expense to the income statement as incurred.

13. Revenue

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow into the Company and the relevant amounts of revenue can be measured reliably, as well as all the following conditions are satisfied.

Revenue from the sale 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. 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 value. Where the consideration receivable under contract or agreement is deferred, such that the arrangement is in substance of a financing nature, 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 taking into account the principal outstanding and the effective interest rate applicable.

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

**14. Income tax**

Income tax comprises current tax and deferred tax, and is recognised as income or expense in the income statement.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

For temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts, and temporary differences between the carrying amounts and the tax bases of items, the tax bases of which can be determined for tax purposes, but which have not been recognised as assets and liabilities, deferred taxes are provided using the liability method.

Income tax comprises current tax and deferred tax, and is recognised as income or expense in the income statement.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

For temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts, and temporary differences between the carrying amounts and the tax bases of items, the tax bases of which can be determined for tax purposes, but which have not been recognised as assets and liabilities, deferred taxes are provided using the liability method.

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

Where the deferred tax liability arises from the initial recognition of goodwill or 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 each balance sheet date, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, taking into account the income tax effect of expected asset realisation or liability settlement at the balance sheet date.

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

**14. Income tax (continued)**

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the deferred tax asset to be utilised. At each balance sheet date, the Company reassesses unrecognised deferred tax assets and recognises the deferred tax assets to the extent that it has become probable that sufficient taxable profits will allow all or part of the deferred tax assets 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 taxes 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.

**15. Leases**

A lease that transfers substantially all of the risks and benefits of ownership of an asset to the lessee is termed as finance lease. All the other leases are termed as operating leases.

Operating lease as a lessee

Operating lease payments are recognised as costs of the relevant assets or expenses on a straight-line basis over the lease term.

**16. Fair value measurement**

The Company measures its derivative financial instruments at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

**16. Fair value measurement (continued)**

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are measured at fair value in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at each balance sheet date.

**17. 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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the future accounting periods, are described below.

*Bad debt provision*

Bad debt provision is made based on the assessment of recoverability of accounts receivable.

III. Significant accounting policies and estimates (continued)

17. Significant accounting judgments, estimates and assumptions (continued)

Estimation uncertainty (continued)

*Inventory provision*

The Company's management provided slow moving inventory provision at balance sheet date. Estimates of provision are based on the most reliable evidence available, and also take into consideration the purpose for which the inventory is held and events occurring in a subsequent period. Where actual outcome of expectation in future is difference from the original estimate, such differences will impact the carrying value of the inventories and write-down loss/reversal of write-down in the period in which such estimate has been changed.

*Impairment of non-financial assets*

The Company assesses whether there are any indicators of impairment for all non-current assets other than financial assets at each reporting date. Non-current assets other than financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Where the carrying amount of an asset or asset group is higher than its recoverable amount (i.e. the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from it), it is indicated that such asset or asset group is impaired. The fair value less costs to sell is determined with reference to the price in sales agreement or observable market price in arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### IV. Taxation

Major tax items and rates are as follows:

Value added tax ("VAT")	- According to the Taxation Law, export output VAT is calculated based on tax exemption, tax withheld, and tax return. The tax return rate for export glass output is 17%. Domestic output VAT is calculated at 16% since 1 May 2018 (17% before 1 May 2018) on the taxable sales and is levied after deducting deductible input VAT for the current period.
Urban maintenance and construction tax	- It is levied at 7% on the turnover taxes paid
Urban maintenance and construction tax	- The Company is subject to a value added rate of 7% on its actual payment of value added tax
Education surcharge	- The Company is subject to a value added rate of 3% on its actual payment of value added tax
Local education surcharge	- The Company is subject to a value added rate of 2% on its actual payment of value added tax
Corporate income tax	- The Company was approved as a high-tech enterprise, and the applicable corporate income tax for the current year is levied at 15%
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**

	2018	2017
Cash	11,902.15	12,088.38
Cash at bank	<u>29,598,840.67</u>	<u>14,660,790.27</u>
	<u>29,610,742.82</u>	<u>14,672,878.65</u>

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

**2. Financial assets at fair value through profit or loss**

	2018	2017
Forward currency contracts	<u>201,685.77</u>	<u>-</u>

The balance is the unrealized amount of the forward currency contracts signed with DBS bank.

**3. Notes receivable and accounts receivable**

	2018	2017
Accounts receivable	<u>42,565,346.00</u>	<u>121,087,838.80</u>

The credit terms of accounts receivable are usually 3 months. Accounts receivable are interest-free. As at the balance sheet date, the ageing of accounts receivables is within one year.

The management of the Company is of the opinion that no bad debt provision is necessary for accounts receivable as at the balance sheet date.

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

4. Advances to suppliers

As at the balance sheet date, the ageing of advances to suppliers is within one year. The management of the Company is of the opinion that no bad debt provision is necessary for advances to suppliers as at the balance sheet date.

5. Other receivables

The ageing analysis of other receivables is as follows:

	2018	2017
Within 1 year	6,237,886.55	2,266,801.47
1 year to 2 years	511,186.43	2,640.00
2 years to 3 years	2,640.00	-
	<u>6,751,712.98</u>	<u>2,269,441.47</u>

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

6. Inventories

	2018	2017
Raw materials	23,866,766.42	26,132,755.60
Work in process	1,270,225.61	1,248,483.41
Finished goods	-	2,040,293.94
	<u>25,136,992.03</u>	<u>29,421,532.95</u>

As at the balance sheet date, no inventories were restricted to use.

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

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

7. Long-term receivables

An ageing analysis of Long-term receivables is as follows:

	2018	2017
Within 1 year	-	88,849,912.68
1 year to 2 years	71,068,115.22	-
	<u>71,068,115.22</u>	<u>88,849,912.68</u>
Less: Long-term receivables due within one year	<u>13,599,609.00</u>	<u>13,599,609.00</u>
	<u>57,468,506.22</u>	<u>75,250,303.68</u>

Long-term receivables are receivable from third-party moulds. As at the balance sheet date, Management is of the opinion that no provision for impairment was necessary for long-term receivables.

8. Fixed assets

2018

	Buildings	Machinery	Office equipment	Total
Cost				
Opening balance	1,572,516.57	52,090,130.78	9,628,242.28	63,290,889.63
Transferred from CIP	126,115.39	1,487,568.80	1,340,611.71	2,954,295.90
Disposals	-	-	(40,585.80)	(40,585.80)
Closing balance	<u>1,698,631.96</u>	<u>53,577,699.58</u>	<u>10,928,268.19</u>	<u>66,204,599.73</u>
Accumulated depreciation				
Opening balance	229,286.48	10,456,631.76	3,194,543.31	13,880,461.55
Depreciation provided during the year	284,550.36	10,229,250.85	2,605,820.99	13,119,622.20
Disposals	-	-	(22,103.64)	(22,103.64)
Closing balance	<u>513,836.84</u>	<u>20,685,882.61</u>	<u>5,778,260.66</u>	<u>26,977,980.11</u>
Carrying amount				
At end of year	<u>1,184,795.12</u>	<u>32,891,816.97</u>	<u>5,150,007.53</u>	<u>39,226,619.62</u>
At beginning of year	<u>1,343,230.09</u>	<u>41,633,499.02</u>	<u>6,433,698.97</u>	<u>49,410,428.08</u>

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

8. Fixed Assets (continued)

2017

	Buildings	Machinery	Office equipment	Total
Cost				
Opening balance	1,569,363.42	43,527,887.07	7,813,432.36	52,910,682.85
Transferred from CIP	<u>3,153.15</u>	<u>8,562,243.71</u>	<u>1,814,809.92</u>	<u>10,380,206.78</u>
Closing balance	<u>1,572,516.57</u>	<u>52,090,130.78</u>	<u>9,628,242.28</u>	<u>63,290,889.63</u>
Accumulated depreciation				
Opening balance	110,171.55	2,321,668.17	1,148,569.65	3,580,409.37
Depreciation provided for the year	<u>119,114.93</u>	<u>8,134,963.59</u>	<u>2,045,973.66</u>	<u>10,300,052.18</u>
Closing balance	<u>229,286.48</u>	<u>10,456,631.76</u>	<u>3,194,543.31</u>	<u>13,880,461.55</u>
Carrying amount				
At end of year	<u>1,343,230.09</u>	<u>41,633,499.02</u>	<u>6,433,698.97</u>	<u>49,410,428.08</u>
At beginning of year	<u>1,459,191.87</u>	<u>41,206,218.90</u>	<u>6,664,862.71</u>	<u>49,330,273.48</u>

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.

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

9. Intangible Assets

Computer Software

	2018	2017
Cost		
Opening balance	1,882,780.17	1,256,041.60
Additions	<u>3,238,320.44</u>	<u>626,738.57</u>
Closing balance	<u>5,121,100.61</u>	<u>1,882,780.17</u>
Accumulated amortization		
Opening balance	275,730.02	82,542.24
Amortization provided for the year	<u>272,751.11</u>	<u>193,187.78</u>
Closing balance	<u>548,481.13</u>	<u>275,730.02</u>
Accounting amount		
At end of year	<u>4,572,619.48</u>	<u>1,607,050.15</u>
At beginning of year	<u>1,607,050.15</u>	<u>1,173,499.36</u>

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

10. Long-term prepayments

	2018	2017
Leasing fixed assets for improvement	<u>2,791,522.71</u>	<u>-</u>

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

11. Deferred tax assets

The net amount of deferred tax assets and the confirmed deferred tax liabilities is set out in the balance sheet. As of 31 December 2018, the offset amount was RMB364,016.89 (31 December 2017: RMB965,251.77).

Recognized deferred tax assets:

	2018	2017
Deductible loss	-	733,625.88
Installment sales gross profit	(364,016.89)	(965,251.77)
Unpaid bonus	531,273.10	817,551.34
Fixed assets depreciation	946,198.84	879,870.09
	<u>1,113,455.05</u>	<u>1,465,795.54</u>

12. Short-term loans

	2018	2017
Guaranteed loans (1)	25,433,552.93	94,637,731.98
Credit loan-RMB (2)	-	21,322,202.25
Credit loan-EUR (2)	-	31,765,582.01
	<u>25,433,552.93</u>	<u>147,725,516.24</u>

- (1) As of 14 November 2016, the Company signed a circular financing agreement with the maximum amount of RMB 132,000,000 yuan with the Australian and New Zealand Bank (China) Limited company, which is guaranteed by Samvardhana Motherson Automotive Systems Group B.V. The maximum duration of each loan is 1 years. The annual interest rate is 1.3% on SHIBOR.
- (2) As of 23 February 2016, the company signed a circular financing agreement with Citibank (China) Limited with a maximum value of 8 million euros, the longest term of each loan is 1 years, a single loan expires one-off repayment of interest. The annual interest rate for Renminbi loans is 10% lower than the benchmark lending rate announced by the people's Bank of China. The annual interest rate of the Euro loan is referred to EURIBOR. The Short-term loans has been repaid in current year.

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

13. Employee benefits payable

	2018 Accruals	2018 Balance	2017 Accruals	2017 Balance
Payroll and bonus	24,111,015.34	4,733,980.35	22,436,208.67	4,709,178.70
Staff welfare	1,324,930.61	-	1,180,667.05	-
Social insurance	2,558,746.53	243,314.03	2,551,253.53	211,738.22
<i>Medical insurance</i>	2,244,361.00	214,782.81	2,182,443.74	181,129.07
<i>Work injury insurance</i>	166,158.64	15,071.11	195,035.09	16,187.11
<i>Maternity insurance</i>	148,226.89	13,460.11	173,774.70	14,422.04
Housing funds	4,276,962.00	358,889.83	3,807,368.85	305,386.02
Defined contribution plans	4,948,331.10	440,518.31	4,048,392.21	335,991.13
<i>Pension insurance</i>	4,788,707.72	426,231.72	3,885,175.19	322,445.09
<i>Unemployment Insurance</i>	159,623.38	14,286.59	163,217.02	13,546.04
	<u>37,219,985.58</u>	<u>5,776,702.52</u>	<u>34,023,890.31</u>	<u>5,562,294.07</u>

14. Taxes payable

	2018	2017
Value added tax	2,739,801.13	350,823.22
Withholding tax	646,249.79	-
Stamp tax	272,169.70	277,898.61
Urban maintenance and construction tax	87,569.95	-
Withholding of individual income tax	50,379.88	81,690.34
Education surcharge	37,529.97	-
Local education surcharge	25,019.98	-
	<u>3,858,720.40</u>	<u>710,412.17</u>

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

15. Paid-in capital

Registered

	2018		2017	
	EUR	Ratio	EUR	Ratio
Samvardhana Motherson Automotive Systems Group B.V.	<u>6,000,000.00</u>	<u>100%</u>	<u>6,000,000.00</u>	<u>100%</u>

Paid-in

	2018		2017	
	EUR	RMB	EUR	RMB
Samvardhana Motherson Automotive Systems Group B.V.	<u>6,000,000.00</u>	<u>42,510,280.00</u>	<u>6,000,000.00</u>	<u>42,510,280.00</u>

The paid-in capital has been verified by Chinese Certified Public Accountants and capital verification reports have been issued.

16. Surplus reserve

2018

	Additions	Closing balance
Reserve fund	<u>4,179,714.85</u>	<u>4,179,714.85</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.

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

17. Retained earnings/(Cumulative loss)

	2018	2017
Opening cumulative loss	(23,673,962.32)	(39,594,813.45)
Net profit for the year	65,471,110.86	15,920,851.13
Less: Reserve fund	(4,179,714.85)	-
Closing Retained earnings /(Cumulative loss)	<u>37,617,433.69</u>	<u>(23,673,962.32)</u>

18. Revenue

Revenue is as follows:

	2018	2017
Primary business	727,277,666.78	649,770,228.88
Other businesses	4,957.34	29,244.01
	<u>727,282,624.12</u>	<u>649,799,472.89</u>

Revenue is as follows:

	2018	2017
Sales of finished goods	726,122,666.78	524,019,535.38
Sales of models	1,155,000.00	125,750,693.50
Sales of raw materials and wastes	4,957.34	29,244.01
	<u>727,282,624.12</u>	<u>649,799,472.89</u>

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

19. Financial expenses

	2018	2017
Interest expenses	9,463,263.65	7,811,936.69
Deduct: Interest income	1,793,143.00	695,874.76
Foreign exchange loss	293,220.86	8,022,993.64
Others	128,546.98	145,667.14
	<u>8,091,888.49</u>	<u>15,284,722.71</u>

20. 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:

	2018	2017
Consumption of raw materials	562,986,489.97	443,175,753.75
Change of work in progress and finished goods	2,018,551.74	94,414,945.71
Payroll	37,219,985.58	34,023,890.31
Depreciation and amortization	13,879,871.31	10,493,239.96
Others	24,416,544.73	30,386,071.20
	<u>640,521,443.33</u>	<u>612,493,900.93</u>

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

21. Income tax expenses

	2018	2017
Current tax	8,102,329.35	-
Deferred tax	<u>352,340.49</u>	<u>5,309,230.17</u>
	<u>8,454,669.84</u>	<u>5,309,230.17</u>

Reconciliation between income tax and profit before tax is as follows:

	2018	2017
Profit before tax	73,925,780.70	21,230,081.30
Income tax expenses at applicable tax rate (Note)	11,088,867.11	5,307,520.33
Expenses not deductible for tax	1,840.06	1,709.84
Effect on opening deferred tax of change in the tax rate	586,318.22	-
Adjustments in respect of current income tax of previous year	(707,545.73)	-
R&D expenses will be deducted	<u>(2,514,809.82)</u>	<u>-</u>
Tax charged at the Company's effective income tax rate	<u>8,454,669.84</u>	<u>5,309,230.17</u>

Note: The Company was approved as a high-tech enterprise, and the applicable corporate income tax for the current year is levied at 15% (for the year ended 31 December 2017: 25%) on its taxable income.

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

22. Cash flows from operating activities

Reconciliation from net profit to cash flows from operating activities:

	2018	2017
Net profit	65,471,110.86	15,920,851.13
Add: Depreciation of fixed assets	13,119,622.20	10,300,052.18
Amortisation of intangible assets	272,751.11	193,187.78
Amortisation of long-term prepayments	487,498.00	-
Profit from changes in fair value	(201,685.77)	-
Finance expenses	9,320,168.20	10,369,247.14
Decrease in inventories	4,284,540.92	93,623,134.05
Decrease in deferred tax assets	352,340.49	5,309,230.17
Decrease in operating receivables	92,074,299.26	28,810,184.90
Decrease in operating payables	(32,646,755.09)	(178,265,937.78)
Net cash flows from operating activities	<u>152,533,890.18</u>	<u>(13,740,050.43)</u>

23. Cash and cash equivalents

	2018	2017
Cash and cash equivalents		
Including: Cash on hand	11,902.15	12,088.38
Cash at banks		
available for payment	<u>29,598,840.67</u>	<u>14,660,790.27</u>
Cash and cash equivalents		
at end of year	<u>29,610,742.82</u>	<u>14,672,878.65</u>

VI. 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

2018

	Financial assets at fair value through profit or loss	Loans and receivables	Total
Cash	-	29,610,742.82	29,610,742.82
Financial assets at fair value through profit or loss	201,685.77	-	201,685.77
Notes receivable and accounts receivable	-	42,565,346.00	42,565,346.00
Other receivables	-	6,751,712.98	6,751,712.98
Non current assets due in one year	-	13,599,609.00	13,599,609.00
Long-term receivables	-	57,468,506.22	57,468,506.22
	<u>201,685.77</u>	<u>149,995,917.02</u>	<u>150,197,602.79</u>

2017

	Loans and receivables
Cash	14,672,878.65
Notes receivable and accounts receivable	121,087,838.80
Other receivables	2,269,441.47
Non current assets due in one year	13,599,609.00
Long-term receivables	<u>75,250,303.68</u>
	<u>226,880,071.60</u>

VI. Financial instruments and risk (continued)

1. Classification of financial instruments (continued)

Financial liabilities

	2018 Other financial liabilities	2017 Other financial liabilities
Short-term loans	25,433,552.93	147,725,516.24
Notes payable and accounts payable	101,841,704.72	137,899,114.57
Other payables	6,595,565.72	8,335,540.20
	<u>133,870,823.37</u>	<u>293,960,171.01</u>

2. 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 2018, the Company had certain concentration of credit risk as 95% (31 December 2017: 96%) of the Company's accounts receivable were due from the top customer. The Company did not hold any collateral or other credit enhancements over the balance of accounts receivables.

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 were impaired and not overdue.

VI. Financial instruments and risk (continued)

2. Risk of financial instruments (continued)

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:

2018

	Within one year
Short-term loans	25,516,511.97
Notes payable and accounts payable	101,841,704.72
Other payables	6,595,565.72
	<u>133,953,782.41</u>

2017

	Within one year
Short-term loans	148,940,018.00
Notes payable and accounts payable	137,899,114.57
Other payables	8,335,540.20
	<u>295,174,672.77</u>

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

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

**Market risk**

Interest rate risk

Changes of market interest rate that the Company is facing is mainly from a floating interest rate for bank borrowing of the Company.

At 31 December 2018, if the interest rate of bank borrowing had weakened/strengthened by 1%, with all other variables held constant, the Company's net profit would have been increased/decreased by RMB216,185.20 (2017: RMB1,477,255.16).

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/EUR had weakened/strengthened by 5%, the Company's net profit would have been increased/decreased by RMB665,994.22 (2017: RMB7,930,505.34) as a result of changes in the fair value of monetary assets and liabilities.

**3. Capital management**

The primary objective of the Company's capital management is to ensure the Company's ability to operate as a going concern and maintain healthy capital structure so as to support business growth and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Company is not subject to any externally imposed capital requirements. During 2018 and 2017, there was no change in the Company's capital management objectives, policies or processes.

## VII. Fair value

### 1. Fair value of financial instruments

Management has assessed currency funds, notes receivable and accounts receivable, other receivables, notes payable 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 2018, the default risk of long-term payables and short-term loans is assessed to be not material.

### 2. Fair Value

Fair value of financial assets and liabilities:

2018

	Input measured by fair value			Total
	Active market (Level 1)	Important and observable (Level 2)	Important and unobservable (Level 3)	
Financial assets at fair value with profit or loss	-	201,685.77	-	201,685.77

## VIII. Related party relationships and transactions

### 1. Definition of related parties

If a party has the power to control, jointly control or exercise significant influence over another party, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control or joint control from the same party.

The following parties are defined as related parties of the Company:

- (1) Parent of the Company;
- (2) Other entities controlled by the parent of the Company;
- (3) Key management personnel of the Company or of the parent and close family members of such individuals.

### 2. Parent company

Parent company	Origion of registration	Nature	Equity held ratio (%)	Voting ratio (%)	Registered EUR
Samvardhana Motherson Automotive Systems Group B.V.	Netherlands	Manufacture and sell the components of vehicles	100	100	66,176

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

### 3. Other related parties

	<u>Relationship</u>
Samvardhana Peguform Automotive Technology Management Services (Changchun) Co., Ltd.	Entity controlled by the parent company
Samvardhana Enterprise Management (Shanghai) Co., Ltd.	Entity controlled by the parent company
SMP Deutschland GmbH	Entity controlled by the parent company
Motherson Automotive Technologies & Engineering	Entity under common control of the ultimate holding company
Motherson Sumi INFotech & Designs Ltd.	Entity under common control of the ultimate holding company
MothersonSumi INFotekk and Design	Entity under common control of the ultimate holding company
MSSL Advanced Polymers s.r.o.	Entity under common control of the ultimate holding company

VIII. Related party relationships and transactions (continued)

4. Significant transactions between the Company and its related parties

(1) Sales and purchases

	2018	2017
Motherson Automotive Technologies & Engineering	<u>18,475,109.32</u>	<u>18,026,299.69</u>

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

(2) Purchases of goods

	2018	2017
SMP Deutschland GmbH	-	1,990,624.32
MSSL Advanced Polymers s.r.o.	<u>107,244.54</u>	<u>71,716.74</u>
	<u>107,244.54</u>	<u>2,062,341.06</u>

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

(3) Financing

2018

	Amount	Annual interest rate	Life of loan
Samvardhana Peguform Automotive Technology Management Services (Changchun) Co., Ltd.			
-Lent	<u>2,100,000.00</u>	4.35%	Open-ended

2017

	Amount	Annual interest rate	Life of loan
Samvardhana Peguform Automotive Technology Management Services (Changchun) Co., Ltd.			
-Lent	<u>370,000.00</u>	4.35%	Open-ended

VIII. Related party relationships and transactions (continued)

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

(3) Financing (continued)

	2018	2017
<u>Interest income</u>		
Samvardhana Peguform Automotive Technology Management Services (Changchun) Co., Ltd.	<u>147,666.51</u>	<u>5,902.00</u>

(4) Other transactions

	2018	2017
<u>Engineering and software technology service fee</u>		
SMP Deutschland GmbH	241,464.09	12,705,860.18
Samvardhana Peguform Automotive Technology Management Services (Changchun) Co., Ltd.	2,253,568.51	410,000.00
Motherson Sumi INFotech & Designs Ltd.	934,316.95	1,219,560.83
MothersonSumi INFotekk and Design	<u>507,995.45</u>	<u>-</u>
	<u>3,937,345.00</u>	<u>14,335,421.01</u>
<u>Consultation and management fees</u>		
SMP Deutschland GmbH	<u>7,746,554.65</u>	<u>6,014,425.00</u>
<u>Acceptance of a guarantee</u>		
Samvardhana Motherson Automotive Systems Group B.V.	<u>132,000,000.00</u>	<u>132,000,000.00</u>

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

VIII. Related party relationships and transactions (continued)

5. Receivables from/payables to related parties

	2018	2017
<u>Notes receivables and accounts receivables</u>		
Motherhood Automotive Technologies & Engineering	<u>4,523,344.87</u>	<u>4,308,948.67</u>
<u>Other receivables</u>		
SMP Deutschland GmbH	3,624,638.36	1,743,547.77
Samvardhana Peguform Automotive Technology Management Services (Changchun) Co., Ltd.	<u>2,623,568.51</u>	<u>375,902.00</u>
	<u>6,248,206.87</u>	<u>2,119,449.77</u>
<u>Notes payables and accounts payables</u>		
SMP Deutschland GmbH	<u>16,456,563.65</u>	<u>40,238,993.41</u>
<u>Accounts payable</u>		
Samvardhana Motherhood Automotive Systems Group B.V.	1,659,743.19	1,650,225.00
Motherhood Sumi INFotech & Designs Ltd.	110,825.85	1,862,170.35
MotherhoodSumi INFotek and Design	512,318.83	-
Samvardhana Enterprise Management (Shanghai) Co., Ltd.	<u>84,068.00</u>	<u>-</u>
	<u>2,366,955.87</u>	<u>3,512,395.35</u>

Except for note VIII.4 (3), receivables from/payables to related parties are unsecured, interest-free and have no fixed term of repayment.

IX. Lease arrangements

As lessee

Operating lease: The non-cancellable minimum lease payments subsequent to the balance sheet date and the aggregate minimum lease payments thereafter are as follows:

	2018	2017
Within one year (includes 1 year)	6,058,276.61	5,329,489.32
1 year to 2 years (includes 2 years)	5,491,729.32	5,329,489.32
2 years to 3 years (includes 3 years)	5,329,489.32	5,329,489.32
Over 3 years	<u>14,656,095.63</u>	<u>19,985,584.95</u>
	<u>31,535,590.88</u>	<u>35,974,052.91</u>

X. Approval of the financial statements

The financial statements have been approved for issuance by the board of directors on 14 June 2019.