SMR Automotive Yancheng Co., Ltd.

Illustrative Audited Financial Statements

Year ended 31 December 2019

CONTENTS

AUDITOR'S REPORT

Ernst & Young Hua Ming (2020) Shen Zi No.61372682_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 2019, 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 2019, 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.

(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.

AUDITOR'S REPORT (CONTINUED)

Ernst & Young Hua Ming (2020) Shen Zi No.61372682_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:
Loulou Liu

Dalian, the People's Republic of China

9 May 2020

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

SMR Automotive Yancheng Co., Ltd.
BALANCE SHEET
Year ended 31 December 2019 **Expressed in Renminbi Yuan**

ASSETS	Note V	31 December 2019	31 December 2018
Current assets			
Cash	1	6,061,594.19	10,583,652.40
Notes receivable	2	6,490,000.00	2,140,000.00
Accounts receivable	3	50,728,899.00	38,029,778.68
Prepayments	4	2,496,703.82	1,286,489.80
Other receivables	5	2,943,615.11	4,214,529.03
Inventories	6	31,015,282.41	17,634,242.04
Other current assets	7	4,527,184.96	6,200,925.59
Total current assets		104,263,279.49	80,089,617.54
Non-current assets			
Fixed assets	8	106,380,777.60	99,458,935.01
Construction in progress	9	9,071,317.65	5,911,777.19
Intangible assets	10	5,077,507.91	5,415,640.79
Deferred tax assets	11	3,862,842.20	-
Total non-current assets		124,392,445.36	110,786,352.99
Total assets		228,655,724.85	190,875,970.53

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

Year ended 31 December 2019 Expressed in Renminbi Yuan

LIABILITIES AND EQUITY	**Note V**	**31 December 2019**	**31 December 2018**
Current liabilities			
Short-term loans	12	14,428,504.53	19,699,098.47
Accounts payable		75,065,463.20	42,675,887.20
Employee benefits payable	13	3,323,563.95	1,806,402.99
Taxes and surcharges payable	14	218,571.05	198,799.94
Other payables		4,013,746.93	15,846,280.95
Current portion of non-current liabilities	15	58,015,482.26	-
Total current liabilities		155,424,235.34	80,226,469.55
Non-current liabilities			
Long-term loans		-	40,497,912.83
Total non-current liabilities		-	40,497,912.83
Total liabilities		155,424,235.34	120,724,382.38
Equity			
Paid-in capital	16	44,173,465.92	44,173,465.92
Capital reserves	17	723,025.00	723,025.00
Surplus reserves	18	10,099,289.64	9,791,299.50
Unappropriated profit	19	18,235,708.95	15,463,797.73
Total equity		73,231,489.51	70,151,588.15
Total liabilities and equity		228,655,724.85	190,875,970.53

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 2019

	Note V	2019	2018
Revenue	20	198,747,872.69	123,137,427.40
Less: Cost of sales		174, 120, 046. 69	111, 587, 793. 59
Taxes and surcharges		484,894.75	432,744.10
Selling expenses		1,957,809.66	418,403.42
Administrative expenses		7,354,018.28	5,949,505.92
Research and development expenses		11, 627, 542. 25	9, 896, 383. 44
Finance expenses	21	4,038,119.83	2,311,516.45
Including: Interest expenses		3,895,368.56	2,079,015.77
Interest income		6,759.59	8,878.61
Add: Other income		149,350.06	-
Impairment losses	22	(74,381.12)	-
Operating loss		(759,589.83)	(7,458,919.52)
Add: Non-operating income		79,730.86	287,630.53
Less: Non-operating expenses		103,081.87	910,331.86
Loss before income taxes		(782,940.84)	(8,081,620.85)
Less: Income tax expenses	24	(3,862,842.20)	18,202.53
Profit/(Loss)		3,079,901.36	(8,099,823.38)
Including: Profit/(Loss) from continuing operations		3,079,901.36	(8,099,823.38)
Total comprehensive profit/(loss)		3,079,901.36	(8,099,823.38)

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 2019 **Expressed in Renminbi Yuan**

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	44,173,465.92	723,025.00	10,099,289.64	18,235,708.95	73,231,489.51

2018

		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	23,563,621.11	78,251,411.53
II.	Changes for the year					
1.	Total comprehensive income	-	-	-	(8,099,823.38)	(8,099,823.38)
III.	Balance at end of year	44,173,465.92	723,025.00	9,791,299.50	15,463,797.73	70,151,588.15

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

Year ended 31 December 2019 Expressed in Renminbi Yuan

	Note V	2019	2018
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from the sale of goods and the rendering of services		199,726,136.17	146,281,186.93
Receipts of tax and surcharges refunds		6,904,879.64	239,517.37
Other cash receipts relating to operating activities		235,840.51	226,294.82
Total cash inflows from operating activities		206,866,856.32	146,746,999.12
Cash payments for goods and services		150,270,614.77	122,280,009.79
Cash payments to and on behalf of employees		22,273,472.36	14,689,570.31
Payments of all types of taxes and surcharges		447,344.94	1,233,647.68
Other cash payments relating to operating activities		8,907,160.06	3,521,547.25
Total cash outflows from operating activities		181,898,592.13	141,724,775.03
Net cash flows from operating activities	25	24,968,264.19	5,022,224.09
2. CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,491,993.93	104,244.35
Total cash inflows from investing activities		1,491,993.93	104,244.35
Cash payments to acquire fixed assets, intangible assets and other long-term assets		39,509,190.31	32,211,758.63
Total cash outflows from investing activities		39,509,190.31	32,211,758.63
Net cash flows from investing activities		(38,017,196.38)	(32,107,514.28)

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

Year ended 31 December 2019 Expressed in Renminbi Yuan

		Note V	2019	2018
3.	CASH FLOWS FROM FINANCING ACTIVITIES			
	Cash receipts from borrowings		96,955,002.91	62,301,111.99
	Total cash inflows from financing activities		96,955,002.91	62,301,111.99
	Cash repayments for debts		84,708,027.42	29,242,192.29
	Cash payments for distribution of dividends or profit and interest expenses		3,716,341.12	1,689,639.36
	Total cash outflows from financing activities		88,424,368.54	30,931,831.65
	Net cash flows from financing activities		8,530,634.37	31,369,280.34
4.	EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(3,760.39)	(181,547.96)
5.	NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(4,522,058.21)	4,283,990.15
	Add: Cash and cash equivalents at beginning of year	25	10,583,652.40	6,299,662.25
6.	CASH AND CASH EQUIVALENTS AT END OF YEAR		6,061,594.19	10,583,652.40

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 registerd 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 automative 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 Company has applied ASBEs issued by the MOF since 1 January 2019.ASBEs have been applied retrospectively to the corresponding items in accordance with *Accounting Standard for Business Enterprises No.38 - First-time Adoption of ASBEs* ("*ASBE No.38*") and other related requirements, and the financial statements have been restated.See Note III.19 for the specific impacts.Except for the items subject to retrospective adjustment at the date of first-time adoption in accordance with Articles 5 to 19 of *ASBE No.38* and other related requirements, the financial statements of the Company and the Company for the comparable year were still prepared in accordance with the accounting policies in *Accounting System for Business Enterprises*. Differences exist between these policies and those applied by the Company and the Company when preparing the 2019 annual financial statements, which have been disclosed in Note III.19. The financial statements for the comparable year have been restated in accordance with 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.

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

<u>Recognition and derecognition</u>

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 *(delete as necessary)*

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:

	Estimated useful life	Estimated residual value (%)	Annual depreciation rate
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 assests 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)

17. 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 (continued)

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.

<u>Post-employment benefits (defined contribution plan)</u>
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. 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;

III. Significant accounting policies and estimates (continued)

15. Income tax(continued)

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.

16. 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.

<u>As lessee of an operating lease</u>

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.

III. Significant accounting policies and estimates (continued)

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.

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.

III. Significant accounting policies and estimates (continued)

18. First-time adoption of ASBEs

As stated in Note II, the Company has adopted ASBEs since 1 January 2019. For changes in accounting policies arising from the first-time adoption of ASBEs, the Company has adopted the following methods in accordance with the requirements relating to the first-time adoption of ASBEs.

(1) Changes in accounting policies that are accounted for using the prospective application method

The Company uses the prospective application method for the following principal changes in accounting policies arising from the first-time adoption of ASBEs, in accordance with the related requirements under ASBEs:

Borrowing costs

Before the first-time adoption of ASBEs, the borrowing costs for capitalisation were limited to those arising from the specific borrowings for the acquisition and construction of fixed assets would be capitalised at an amount determined by principle before such assets get ready for intended use. Other borrowing costs would be recognised in profit or loss as incurred.

Refer to Note III.9 for accounting policies relating to borrowing costs adopted by the Company after the first-time adoption of ASBEs.

Research and development expenditures

Before the first-time adoption of ASBEs, the costs of intangible assets which were developed in-house and acquired through legal application procedures, were determined based on the registration fee incurred, the lawyer’s fee and other costs at legal application. The research and development expenditures incurred before acquisition through legal application were recognised immediately in profit or loss.

Refer to Note III.11 for accounting policies relating to internal research and development projects after the first-time adoption of ASBEs.

For internal development projects in progress, the Company did not retrospectively adjust the development expenditures which had been recognised in expenses before the date of first-time adoption; development expenditures incurred on and after the date of first-time adoption will be capitalised if the requirements in Note III.11 are met, otherwise they will be recognised in profit or loss as incurred.

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III. Significant accounting policies and estimates (continued)

18. First-time adoption of ASBEs (continued)

(1) Changes in accounting policies that are accounted for using the prospective application method (continued)

Staff welfare

After the first-time adoption of ASBEs, employee benefits payable (staff welfare) are recognised in profit or loss according to the specific situation and the employee benefit plan. In the first accounting period following the date of first-time adoption, the differences between the staff welfare which shall be recognised under ASBEs and the balance of the staff welfare immediately before the application of ASBEs, were recognised in profit or loss.

Above changes in accounting policies will not give any changes to the company's net profits and equities.

The main influence on the compan's financial statements due to adaptation fo changes in accounting policies are as followed:

2019

	Before adoption of accounting standards Opening balances	Reclassification	After adoption of accounting standards Opening balances
Advances to suppliers	243,854.17	(243,854.17)	-
Prepaid expenses	1,042,635.63	(1,042,635.63)	-
Prepayments	-	1,286,489.80	1,286,489.80
Employee benefits payable	-	1,806,402.99	1,806,402.99
Interest payable	470,956.91	(470,956.91)	-
Other payables	11,473,651.23	4,372,629.72	15,846,280.95
Accrued expenses	3,994,622.85	(3,994,622.85)	-

2018

	Before adoption of accounting standards Opening balances	Reclassification	After adoption of accounting standards Opening balances
Revenue from principal operations	111,216,039.13	(111,216,039.13)	-
Cost of sales rom principal operations	109,913,507.45	(109,913,507.45)	-
Profit from other operations	350,718.69	(350,718.69)	-
Revenue	-	123,137,427.40	123,137,427.40
Cost of sales	-	109,583,641.87	109,583,641.87
Research and development expenses	-	11,900,535.16	11,900,535.16

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 since 1 April 2019 (16% before 1 April 2019).
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 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.

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V. Notes to major items in the financial statements

1. Cash

	2019	2018
Cash at bank	6,061,594.19	10,583,652.40

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

2. Notes receivable

	2019	2018
Bank acceptance bills	6,490,000.00	2,140,000.00

On the balance sheet date, all notes receivable are banker's acceptance and no notes receivable have been mortgaged or endorsed.

At 31 December 2019, notes receivable that have been discounted was RMB7,916,426.00 (31 December 2018: RMB10,700,000.00). The directors of the Company are of the option that no provision for impairment is necessary in respect of notes receivables.

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 2019, the total amount of pledged accoutns receivable is RMB14,428,504.53 (31 December 2018:RMB19,699,098.47). Refer to note V 12.

4. Prepayments

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:

	2019	2018
Within 1 year	2,541,155.63	3,841,729.03
1 to 2 years	29,659.48	364,600.00
2 to 3 years	364,600.00	-
Over 3 years	8,200.00	8,200.00
	2,943,615.11	4,214,529.03

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

Year ended 31 December 2019 Expressed in Renminbi Yuan

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

6. Inventories

	2019	2018
Raw materials	14,169,981.86	6,651,369.66
Materials in transit	4,726,036.03	-
Work in process	7,137,434.65	8,831,960.70
Finished goods	5,056,210.99	2,150,911.68
	31,089,663.53	17,634,242.04
Less: Provision for write-down of inventories	74,381.12	-
	31,015,282.41	17,634,242.04

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

2019

	Opening balance	Provision	Decrease		Closing balance
			Reversal	Transfer	
Finished goods	-	74,381.12	-	-	74,381.12

On the balance sheet date, the company has no owershipship restricted inventories。

7. Other current assets

	2019	2018
Pending deduct VAT on purchase	4,527,184.96	6,200,925.59

Year ended 31 December 2019 Expressed in Renminbi Yuan

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

8. Fixed assets

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

Year ended 31 December 2019 Expressed in Renminbi Yuan

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

8. Fixed assets (continued)

2018

	Buildings	Machinery	Modelling	Electronic equipment Vehicle and Office furniture	Total
Cost					
Opening balance	30,435,207.60	32,210,864.63	30,978,699.91	3,712,882.14	97,337,654.28
Transfers from construction in progress	398,759.31	24,701,591.36	11,833,359.21	654,223.29	37,587,933.17
Disposals or retirements	-	-	(1,670,000.01)	-	(1,670,000.01)
Closing balance	30,833,966.91	56,912,455.99	41,142,059.11	4,367,105.43	133,255,587.44
Accumulated depreciation					
Opening balance	2,444,414.04	5,372,391.70	13,526,301.46	1,074,112.55	22,417,219.75
Depreciation provided during the year	1,524,820.77	5,685,073.68	4,189,504.47	772,083.82	12,171,482.74
Disposals or retirements	-	-	(792,050.06)	-	(792,050.06)
Closing balance	3,969,234.81	11,057,465.38	16,923,755.87	1,846,196.37	33,796,652.43
Carrying amount					
At end of year	26,864,732.10	45,854,990.61	24,218,303.24	2,520,909.06	99,458,935.01
At beginning of year	27,990,793.56	26,838,472.93	17,452,398.45	2,638,769.59	74,920,434.53

Year ended 31 December 2019 Expressed in Renminbi Yuan

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

	2019	2018
Opening balance	5,911,777.19	8,330,071.63
Additions	27,747,432.41	35,746,125.20
Transfer to fixed assets	(24,567,714.96)	(37,587,933.17)
Transfer to intangible assets	(20,176.99)	(576,486.47)
Closing balance	9,071,317.65	5,911,777.19

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

10. Intangible assets

2019

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

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

10. Intangible assets (continued)

2018

	Computer Software	Land in use	Total
Cost			
Opening balance	421,408.78	5,228,907.72	5,650,316.50
Transfers from construction in progress	576,486.47	-	576,486.47
Closing balance	997,895.25	5,228,907.72	6,226,802.97
Accumulated amortization			
Opening balance	124,536.96	460,792.24	585,329.20
Amortization provided for the year	121,230.78	104,602.20	225,832.98
Closing balance	245,767.74	565,394.44	811,162.18
Accounting amount			
At end of year	752,127.51	4,663,513.28	5,415,640.79
At beginning of year	296,871.82	4,768,115.48	5,064,987.30

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

	2019	2018
Deductible loss	3,630,112.29	43,407.95
Government grants	214,134.63	27,632.52
Impairment losses	18,595.28	11,484.57
	3,862,842.20	198,799.94

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

	2019	2018
Pledge and guarantee loan	14,428,504.53	19,699,098.47

(1) On 1 August 2019, the Company entered into a credit loan contract with Industrial Bank of Korea (China) Co., Ltd., with highest quota of RMB11,000,000.00, taking the company's receivables of Dongfeng Yueda KIA co., Ltd. as pledge, SMR Automotive Modules Korea Ltd. provides sureship guaranty, term from 1 August 2019 to 12 June 2020 and annual interest at 4%. On December 31, 2019, the company had withdrawn RMB4,504,832.60, and the pledged amount of accounts receivable was RMB4,504,832.60.

(2) On October 31, the company in 2019, with Industrial Bank of Korea (China) Co., Ltd. signed the highest amount of RMB10,000,000.00 circulating loans, accounts receivable of the company as the pledge, the SMR Automotive Modules Korea Ltd. provide guarantee loan, term from 31 October 2019 to 30 October 2020, the annual interest rate for one-year LPR plus 50 basis points. On 31 December 2019, the company had withdrawn RMB9,923,671.93, and the pledged amount of accounts receivable was RMB9,923,671.93.

Year ended 31 December 2019 Expressed in Renminbi Yuan

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

13. Employee benefits payable

	2019 Amount payable	31 December 2019 Outstanding amout	2018 Amount payable	31 December 2018 Outstanding amout
Salaries, bonuses, allowances and subsidies	18,165,895.04	2,886,539.23	10,855,768.02	1,587,975.24
Social security	1,050,099.48	3,459.55	658,904.24	5,149.62
Including: Medical insurance	925,368.25	3,050.36	588,251.30	4,537.50
Work injury insurance	41,578.35	136.40	34,891.08	204.17
Maternity insurance	83,152.88	272.79	35,761.86	407.95
Housing funds	2,058,883.00	220,658.00	1,152,153.00	107,623.00
Trade union funds and staff education funds	356,549.31	205,329.15	217,115.37	92,950.04
	21,274,877.52	3,315,985.93	12,666,825.26	1,793,697.90
Defined contribution plan	2,515,755.80	7,578.02	1,647,200.53	12,705.09
Including: Basic pension insurance	2,415,418.46	7,274.88	1,588,359.76	12,251.25
Unemployment Insurance	100,337.34	303.14	58,840.77	453.84
	23,790,633.32	3,323,563.95	14,314,025.79	1,806,402.99

14. Taxes payable

	2019	2018
Withholding of individual income tax	59,585.34	43,407.95
Withholding of corporate tax	29,421.34	33,754.01
Withholding of value added tax	12,950.29	8,303.18
Building Taxes	76,422.59	74,217.71
Land use tax	27,632.56	27,632.52
Others	12,558.93	11,484.57
	218,571.05	198,799.94

Year ended 31 December 2019 Expressed in Renminbi Yuan

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

15. Long-term borrowings and Non-current liabilities due within one year

	2019	2018
Guaranteed load	-	40,497,912.83

On 23 October 2017, the Company entered into a credit loan contract with Industrial Bank of Korea, with highest quota of RMB80,000,000.00, term from 23 October 2017 to 23 October 2020 and annual interest at 5%. The loan is guaranteed by SMR Automotive Modules Korea Ltd. At 31 December 2019, the company has withdrawed RMB58,015,482.26, and will expire within one year.

16. Paid-in capital

Registered Capital

	2019		2018	
	USD	%	USD	%
SMR Automotive Holding Hong Kong Limited	6,720,000.00	100%	6,720,000.00	100%

Paid-in Capital

	2019年		2018年	
	USD	RMB	USD	RMB
SMR Automotive Holding Hong Kong Limited	6,720,000.00	44,173,465.92	6,720,000.00	44,173,465.92

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

17. Capital reserves

2019&2018

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

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 in2014.

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

18. Surplus reserve

2019

	Opening balance	Increase	Closing balance
Reserve fund	9,791,299.50	307,990.14	10,099,289.64

2018

	Opening and closing balance
Reserve fund	10,099,289.64

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.

19. Unappropriated profit

	2019	2018
Balance at end of the prior year	15,463,797.73	23,563,621.11
Net profit/(loss) for the year	3,079,901.36	(8,099,823.38)
Less: withdraw surplus reserves	307,990.14	-
Balance at end of the current year	18,235,708.95	15,463,797.73

20. Revenue

Revenue is as follows:

	2019	2018
Primary business	184,771,036.62	111,216,039.13
Other businesses	13,976,836.07	11,921,388.27
	198,747,872.69	123,137,427.40

Revenue is as follows:

	2019	2018
Sales of goods	184,771,036.62	111,216,039.13
Sales of raw materials and wastes	11,934,066.07	11,044,464.27
Sales of models	2,042,770.00	876,924.00
	198,747,872.69	123,137,427.40

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

21. Finance expenses

	2019	2018
Interest expense	3,575,479.17	2,040,019.35
Less: interest income	6,759.59	8,878.61
Less: captalisd interest	60,611.86	100,699.42
Discounted interest expense	380,501.25	139,695.84
Exchange (profit) / loss	(17,494.67)	181,547.96
Service charge	167,005.53	59,831.33
	4,038,119.83	2,311,516.45

22. Impairment losses

	2019	2018
Loss from write-down of inventories	(74,381.12)	-

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：

	2019	2018
Consumption of raw materials	137,839,128.41	93,781,245.68
Change of work in progress and finished goods	(1,210,773.26)	7,455,690.03
Payroll	23,790,633.32	14,314,025.79
Depreciation and amortization	17,983,469.26	12,492,315.72
Freight packing expenses	4,321,310.93	1,742,883.44
Research and development expenses	3,857,282.44	7,993,046.35
Others	8,478,365.78	4,984,259.42
	195,059,416.88	127,852,081.37

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

24. Income tax expenses

	2019	2018
Current tax	-	18,202.53
Deferred tax	(3,862,842.20)	18,202.53
	(3,862,842.20)	18,202.53

The reconciliation between income tax expenses and loss before income taxes is as follows:

	2019	2018
Loss before income tax	(782,940.84)	(8,099,823.38)
Income tax expenses at applicable tax rate	(195,735.21)	(2,024,955.85)
Undeductible expenses	79,162.21	217,977.49
Wage deduction for disabled persons	(15,068.78)	(11,970.42)
Adjustments in respect of current income tax of previous year	-	18,202.53
Additional deduction for research and development expenses	(1,916,802.28)	-
Recognized deductible loss	(1,814,398.14)	1,814,398.14
Tax charged at the Company's effective income tax rate	(3,862,842.20)	18,202.53

25. Cash flows from operating activities

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

	2019	2018
Net profit/(loss)	3,079,901.36	(8,099,823.38)
Add: Provisions for asset impairment	74,381.12	-
Depreciation of fixed assets	17,625,159.39	12,171,482.74
Amortisation of intangible assets	358,309.87	225,832.98
Amortisation of long-term prepayments	-	95,000.00
(Profit)/Losses from the disposal of fixed assets	101,278.43	773,705.60
Finance expenses	3,899,128.95	1,939,319.93
Increase in inventories	(13,455,421.49)	(9,031,413.86)
Increase in deferred tax assets	(3,862,842.20)	-
Increase in operating receivables	(15,314,679.79)	(1,238,872.45)
Increase in operating payables	32,642,075.99	8,186,992.53
Net cash flows from operating activities	24,968,264.19	5,022,224.09

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

26. Cash and cash equivalents

	2019	2018
Cash and cash equivalents	6,061,594.19	10,583,652.40
Including: Cash at banks available for payment	6,061,594.19	10,583,652.40
Cash and cash equivalents at end of year	6,061,594.19	10,583,652.40
Cash and cash equivalents at end of year	6,061,594.19	10,583,652.40
Less: Opening balance of cash and cash equivalents	10,583,652.40	6,299,662.25
Net (decrease)/ increase in cash and cash equivalents	(4,522,058.21)	4,283,990.15

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

<u>Information about products and services</u>

Revenue from external customers

	2019	2018
Sales of goods	184,771,036.62	111,216,039.13
Sales of raw materials and wastes	11,934,066.07	11,044,464.27
Sales of models	2,042,770.00	876,924.00
	198,747,872.69	123,137,427.40

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VI. Segment reporting (continued)

2. Other information (continued)

Geographic information

Revenue from external customers

	2019	2018
Mainland China	133,656,509.81	120,668,352.34
South Korea	56,818,337.46	2,438,166.16
Hungary	7,235,203.98	16,067.90
United State of America	1,030,373.66	-
Brazil	7,447.78	-
India	-	14,841.00
	198,747,872.69	123,137,427.40

Non-current assets

In 2018 and 2019, 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:

	2019	2018
Client A	71,763,447.63	79,660,209.57
Client B	56,500,707.98	1,943,716.16
Client C	42,074,266.04	24,225,660.34
	170,338,421.65	105,829,586.07

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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

	2019 measured at amortized cost	2018 measured at amortized cost
Cash	6,061,594.19	10,583,652.40
Notes receivable	6,490,000.00	2,140,000.00
Accounts receivable	50,728,899.00	38,029,778.68
Other receivables	5,213,521.83	4,214,529.03
	66,224,108.30	54,967,960.11

Financial liabilities

	2019 measured at amortized cost	2018 measured at amortized cost
Short-term loans	14,428,504.53	19,699,098.47
Long-term loans	58,015,482.26	40,497,912.83
Accounts payable	75,424,366.62	42,675,887.20
Other payables	4,013,746.93	15,846,280.95
	151,882,100.34	118,719,179.45

2. Transfers of financial assets

Transferred financial assets that are terminated on recognition

On 31 December 2019, the company has discount bank acceptance draft book value is RMB7,916,426.00 (31 December 2018: RMB10,700,000.00). 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.

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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 2019, the Company had certain concentration of credit risk as 83% (31 December 2018: 94%) 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 maternity 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:

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
	154,704,040.61

2018

	Within one year	One to two years	Total
Short-term loans	20,530,838.18	-	20,530,838.18
Accounts payable	42,675,887.20	-	42,675,887.20
Other payables	15,846,280.95	-	15,846,280.95
Long-term loans e	2,024,895.64	42,196,575.28	44,221,470.92
	81,077,901.97	42,196,575.28	123,274,477.25

VII. Financial instruments and risk (continued)

3. Risk of financial instruments (continued)

Market risk

Interest rate risk

At 31 December 2019, 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 RMB724,439.87 (2018: RMB601,970.11) 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/USD had weakened/strengthened by 5%, the Company's net profit would have been increased/decreased by RMB48,197.87 (2018: RMB792.70) as a result of changes in the fair value of monetary assets and liabilities. If the exchange rate of RMB/KRW had weakened/strengthened by 5%, the Company's net profit would have been increased/decreased by RMB1,639,342.69 (2018: RMB174,836.08) 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 RMB156,758.64 (2018: RMB4,878.92) 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 2019 and 31 December 2018.

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 2019, 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 Automative Systems USA	Entity under common control of the ultimate holding company
SMR Automotive Brasil Ltda	Entity under common control of the ultimate holding company
SMR Hyosang Automotive Ltd.	Entity under common control of the ultimate holding company
SMR Automotive Modules Korea Ltd.	Entity under common control of the ultimate holding company
SMR patents S.A.R.L	Entity under common control of the ultimate holding company
MothersonSumi Infotech & Designs Ltd.	Entity under common control of the ultimate holding company
SMR Automotive Mirror Tech Hungary	Entity under common control of the ultimate holding company
SMR India Automotive	Entity under common control of the ultimate holding company
SMR Automotive Mirror Stuttgart	Entity under common control of the ultimate holding company
SMR Langfang	Entity under common control of the ultimate holding company
SMR Enterprise Management (Shanghai) Co., Ltd.	Entity under common control of the ultimate holding company
Chongqing SMR Huaxiang Automative Produts 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

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IX. Related party relationships and transactions (continued)

4. Significant transactions between the Company and its related parties

(1) Sales of goods to related parties

	2019	2018
SMR Automotive Modules Korea Ltd.	56,500,707.98	1,943,716.16
SMR Langfang	42,074,266.04	24,225,660.34
SMR Automotive Mirror Tech Hungary	7,235,203.98	16,067.90
Chongqing SMR Huaxiang Automative Produts Co, Ltd.	5,957,069.61	2,329,124.88
SMR Automative Systems USA	1,030,373.66	-
SMR Hyosang Automotive Ltd.	317,629.48	494,450.00
Ningbo SMR Huangxiang Automotive Mirrors Co. Limited	11,315.70	13,198.14
SMR Automotive Brasil Ltda	7,447.78	-
SMR India Automotive	-	14,841.00
	113,134,014.23	29,037,058.42

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

	2019	2018
SMR Automotive Modules Korea Ltd.	28,758,859.52	12,037,978.19
SMR Langfang	15,626,669.31	-
SMR Hyosang Automotive Ltd.	11,206,578.65	15,566,811.71
	55,592,107.48	27,604,789.90

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

	2019	2018
<u>Sales of fixed asset</u>		
SMR Langfang	-	848,824.64
<u>Purchase of fixed asset</u>		
SMR Automotive Modules Korea Ltd.	3,788,105.76	2,491,136.77
SMR Hyosang Automotive Ltd.	1,125,123.95	1,593,861.00
	4,913,229.71	4,084,997.77
<u>Technology development service</u>		
SMR Automotive Modules Korea Ltd.	3,407,463.13	5,870,218.47
SMR Langfang	18,619.32	-
	3,426,082.45	5,870,218.47
<u>Trademark fee</u>		
SMR patents S.A.R.L	547,657.95	411,268.38

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IX. Related party relationships and transactions (continued)

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

(3) Other transactions (continued)

	2019	2018
Software usage fee		
MothersonSumi Infotech & Designs Ltd.	482,519.37	894,862.72
SMR Automotive Mirror Stuttgart	85,416.86	60,927.39
	567,936.23	955,790.11
Consultancy fee		
SMR Enterprise Management (Shanghai) Co., Ltd.	369,056.72	93,405.18
Equipment testing service		
SMR Automotive Modules Korea Ltd.	34,882.80	26,331.96
Working clothes		
SMR Automotive Modules Korea Ltd.	9,331.00	51,587.10
Reimbursed travelling expense		
SMR Automotive Modules Korea Ltd.	107,021.89	54,985.42
Entertainment expenses		
SMR Automotive Modules Korea Ltd.	9,289.22	2,259.90
Reimbursed conference expense		
SMR Automotive Mirror Stuttgart	12,985.80	-
Acceptance of a guarantee		
SMR Automotive Modules Korea Ltd.	101,000,000.00	101,000,000.00

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

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IX. Related party relationships and transactions (continued)

5. Receivables from/payables to related parties

	2019	2018
Accounts recievable		
SMR Automotive Modules Korea Ltd.	22,412,498.86	1,100,578.45
Chongqing SMR Huaxiang Automative Produts Co, Ltd.	2,342,329.59	1,436,978.06
SMR Langfang	2,296,479.45	848,824.64
SMR Automotive Mirror Tech Hungary	1,066,811.61	16,067.90
SMR Automative Systems USA	240,604.59	-
Ningbo SMR Huangxiang Automotive Mirrors Co. Limited	12,786.74	13,198.14
SMR Automotive Brasil Ltda	7,447.77	-
SMR Hyosang Automotive Ltd.	-	398,750.00
SMR India Automotive	-	14,841.00
	28,378,958.61	3,829,238.19
Other recievables		
SMR Langfang	-	2,807,506.77
Accounts payable		
SMR Automotive Modules Korea Ltd.	31,859,730.66	9,825,001.01
SMR Hyosang Automotive Ltd.	7,800,702.41	11,148,138.80
	39,660,433.07	20,973,139.81
Other payables		
SMR patents S.A.R.L	130,766.32	172,617.92
MothersonSumi Infotech & Designs Ltd.	57,821.06	37,769.44
SMR Enterprise Management	35,688.87	66,686.74
SMR Automotive Mirror Stuttgart	-	60,927.39
	224,276.25	338,001.49

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

X. Comparative amounts

As further explained in Note III.19 to the financial statements, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, and certain comparative amounts have been restated to conform to the current year's presentation and accounting treatment.

XI. Approval of the financial statements

The financial statements were approved by the board of directors on 9 May 2020.