

ANNUAL REPORT 2017



NEXTEER AUTOMOTIVE GROUP LIMITED
耐世特汽車系統集團有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

STOCK CODE : 1316

nexteer
AUTOMOTIVE

a leader in intuitive motion control

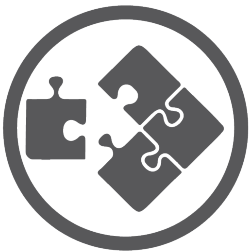
5 THINGS TO KNOW ABOUT NEXTEER

& WHAT IT MEANS TO OUR GLOBAL CUSTOMERS



DEPTH & BREADTH OF PRODUCTS

Steering & Driveline Systems for small cars to heavy duty trucks around the globe



EXPERIENCED SYSTEMS INTEGRATORS

Seamless Integration: “Vehicle-level thinking” is in our DNA



IN-HOUSE OWNERSHIP OF R&D, DESIGN, TESTING & MANUFACTURING

Agility, responsiveness, quality & value



RELENTLESS INNOVATION

Faster-to-market product development cycles via quick, iterative design approach

Access to a cross-functional, advanced technology team

Time & cost-efficiencies via smart capitalization on Nexteer’s in-house technologies, ADAS & autonomous driving building blocks



GLOBAL MANUFACTURING FOOTPRINT & PROWESS

A high-quality, proven manufacturing partner for safety-critical systems... in every market where you need to be

Contents

Corporate Profile	2
Corporate Information	4
Our Products	7
Business Overview	14
Financial Highlights	23
Chairman's Statement	25
Management Discussion and Analysis	27
Directors and Senior Management	36
Directors' Report	44
Corporate Governance Report	61
Independent Auditor's Report	74
Consolidated Balance Sheet	80
Consolidated Income Statement	82
Consolidated Statement of Comprehensive Income	83
Consolidated Statement of Changes in Equity	84
Consolidated Statement of Cash Flows	85
Notes to the Consolidated Financial Statements	86
Five Years' Financial Summary	148

Corporate Profile

Nexteer Automotive Group Limited (the **Company**) together with its subsidiaries are collectively referred to as **we, us, our, Nexteer, Nexteer Automotive** or the **Group**. Nexteer Automotive is a global leader in advanced steering and driveline systems, advanced driver assistance systems (**ADAS**) and autonomous vehicle enabling technologies. In-house development and full integration of hardware, software and electronics give Nexteer a competitive advantage as a full service supplier.

As a leader in intuitive motion control – our vision is to leverage strengths in advanced steering and driveline systems. We maintain product focus on electric power steering (**EPS**) systems, a socially responsible technology that offers automakers increased fuel economy and reduced emissions. Nexteer Automotive has put more than 50 million EPS units on the road since 1999, saving more than 5 billion gallons of fuel, enough to fill the equivalent of 40 billion water bottles.

Our ability to integrate our systems seamlessly into automotive original equipment manufacturers' (**OEM**) vehicles is a testament of our 110-year heritage of vehicle integration expertise and product craftsmanship. Our culture inspires employees to achieve personal and corporate growth by focusing on the Company's core values across all aspects of the enterprise: people, operational excellence and enterprise growth.

We seek to be the partner of choice for our customers and suppliers by delivering dependable, safety-critical products and building enduring relationships.

Nexteer provides real-world, vehicle-level solutions by being:

- **Customer Focused:** Respected and trusted for delivering on commitments
- **Proactive:** We listen carefully to understand customer requirements
- **Innovative:** A market leader in steering and driveline innovation
- **Agile:** Able to respond quickly with high-quality, cost-effective solutions
- **Global:** Committed to exceeding customer and vehicle needs every time, in every customer-targeted market



Corporate Profile

GLOBAL FOOTPRINT



World Headquarters: Auburn Hills, Michigan, United States of America (**USA** or **US**)

Manufacturing Plants: 24, including 1 non-consolidated joint venture

Technical Engineering Centres: 3

Customer Service Centres: 14

Global Customers: 50+, including BMW Group (**BMW**), Fiat Chrysler Automobiles N.V. (**FCA**), Ford Motor Company (**Ford**), General Motors Company and Subsidiaries (**GM**), PSA Groupe (**PSA**), SAIC General Motors Co., Ltd. (**Shanghai GM**), SAIC-GM-Wuling Automobile Co. Ltd. (**SGMW**), Toyota Motor Corporation (**Toyota**), Renault-Nissan-Mitsubishi Alliance (**RNM**) and Volkswagen Group (**VW**) as well as domestic automakers in India, China and South America

Corporate Information

BOARD OF DIRECTORS

Executive Directors

ZHAO, Guibin (趙桂斌)

(Chairman and Chief Executive Officer)

RICHARDSON, Michael Paul

FAN, Yi (樊毅)

Non-Executive Directors

LU, Daen (錄大恩) (resigned with effect from and upon the conclusion of the Board meeting held on March 14, 2017)

WANG, Xiaobo (王曉波) (resigned with effect from December 31, 2017)

YANG, Shengqun (楊勝群) (appointed with effect from March 14, 2017)

ZHANG, Jianxun (張建勳) (appointed with effect from March 13, 2018)

Independent Non-Executive Directors

TSANG, Hing Lun (曾慶麟) (passed away on June 4, 2017)

LIU, Jianjun (劉健君)

WEI, Kevin Cheng (蔚成)

YICK, Wing Fat Simon (易永發) (appointed with effect from August 15, 2017)

JOINT COMPANY SECRETARIES

FAN, Yi (樊毅)

MOK, Ming Wai (莫明慧) (FCIS, FCS)

AUTHORISED REPRESENTATIVES

FAN, Yi (樊毅)

MOK, Ming Wai (莫明慧) (FCIS, FCS)

LEGAL ADVISERS

As to Hong Kong Law

DLA Piper Hong Kong

As to Cayman Islands Law

Maples and Calder

AUDITOR

PricewaterhouseCoopers

AUDIT AND COMPLIANCE COMMITTEE

WEI, Kevin Cheng (蔚成) *(Chairman)*

TSANG, Hing Lun (曾慶麟) (passed away on June 4, 2017)

YANG, Shengqun (楊勝群) (appointed with effect from March 14, 2017)

LU, Daen (錄大恩) (resigned with effect from and upon the conclusion of the Board meeting held on March 14, 2017)

YICK, Wing Fat Simon (易永發) (appointed with effect from August 15, 2017)



REMUNERATION AND NOMINATION COMMITTEE

TSANG, Hing Lun (曾慶麟) (*Chairman*) (passed away on June 4, 2017)

YICK, Wing Fat Simon (易永發) (*Chairman*) (appointed with effect from August 15, 2017)

LIU, Jianjun (劉健君)

WANG, Xiaobo (王曉波) (resigned with effect from December 31, 2017)

ZHANG, Jianxun (張建勛) (appointed with effect from March 13, 2018)

HEADQUARTERS

1272 Doris Road
Auburn Hills, Michigan 48326, USA

REGISTERED OFFICE

P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of America Merrill Lynch
Bank of China
Bank Pekao SA
China CITIC Bank
China Construction Bank
Comerica Bank
JPMorgan Chase & Co.
PKO Bank Polski
Shanghai Pudong Development Bank
The Export-Import Bank of China
Wells Fargo Capital Finance



Corporate Information

STOCK CODES

Share Listing

Ordinary Shares

The Stock Exchange of Hong Kong Limited
(Stock code: 1316)

Senior Notes Listing

US\$250,000,000 5.875%

Senior Notes due 2021

The Stock Exchange of Hong Kong Limited
(Stock code: 5826)

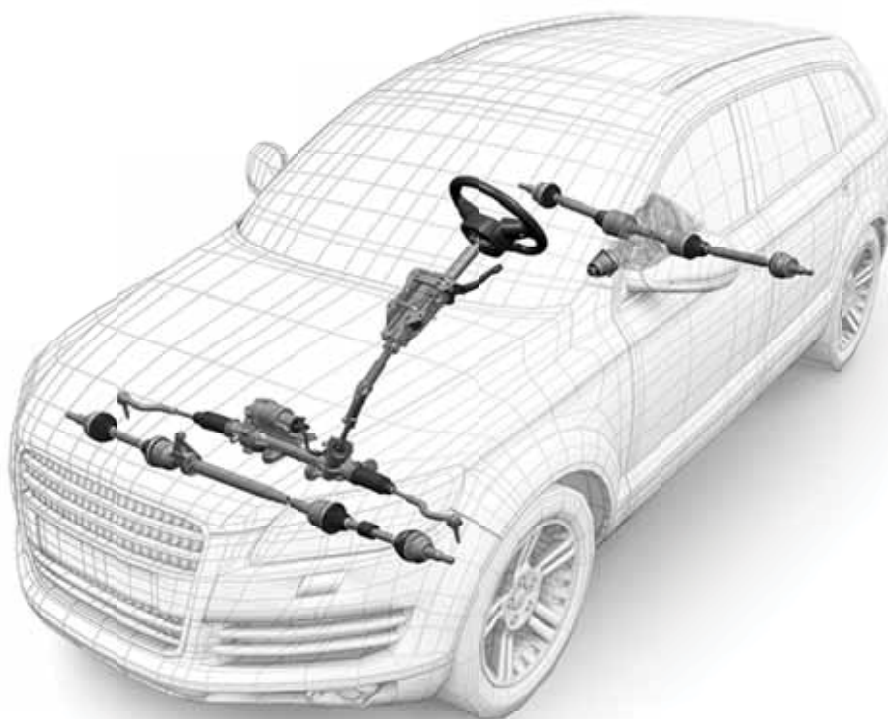
COMPANY WEBSITE

<http://www.nexteer.com/>



Our Products

OUR PRODUCTS



ELECTRIC
POWER
STEERING

COLUMNS &
INTERMEDIATE
SHAFTS

DRIVELINE
SYSTEMS

HYDRAULIC
POWER
STEERING

ADAS &
AUTONOMOUS
TECHNOLOGIES

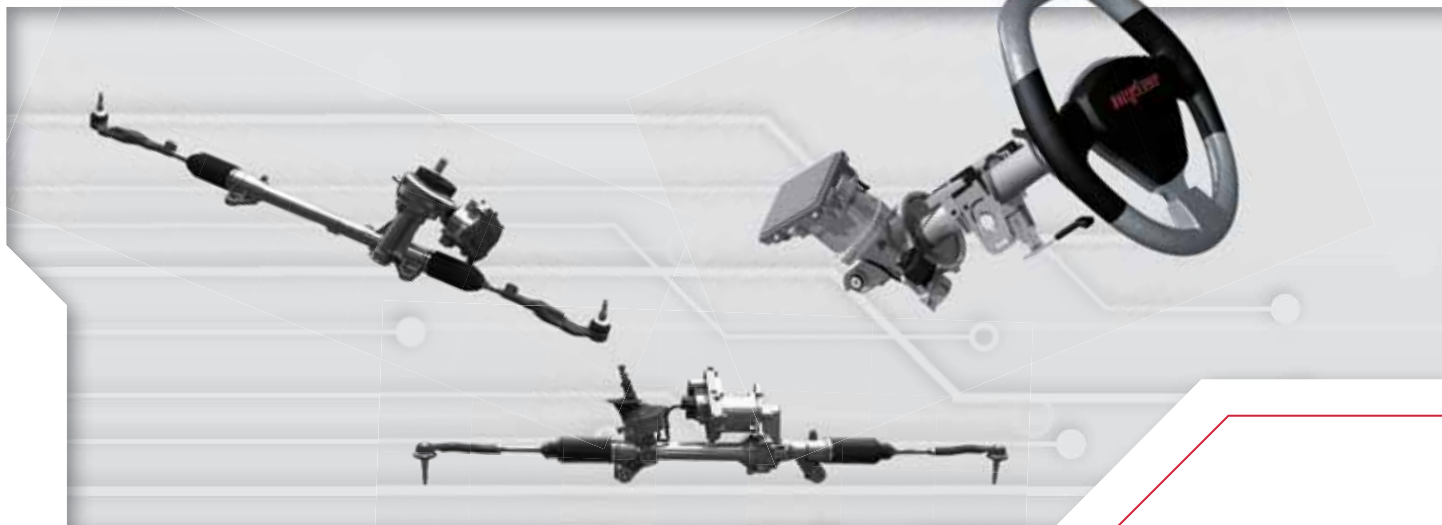
We design, develop, manufacture and distribute steering and driveline systems and components, primarily for OEMs.

A steering system consists of the components required to provide lateral directional control of the vehicle. Our steering system product lines include EPS, hydraulic power steering (HPS) as well as steering columns and intermediate shafts.

A driveline system consists of the components required to transfer power from the transmission to the driven wheels. Our driveline system products include front wheel drive halfshafts, intermediate drive shafts and rear wheel drive halfshafts as well as propeller shaft CV (Constant Velocity) joints.

Our Products

ELECTRIC POWER STEERING



EPS uses an electric motor to assist driver steering. Our hardware and software are developed concurrently, and work together to connect the driver with the road, taking into account driving dynamics and the operating environment. This “connection to the road” provides the driver an experience consistent with the vehicle’s brand (such as luxury, sport, etc.), but also gives important safety cues regarding road surface (such as icy, gravel, etc.).

In addition, EPS is a key ADAS feature enabler. EPS translates data from the vehicle’s central electronic control unit (**ECU**) into precise mechanical steering functions. A sampling of EPS-enabled ADAS features includes: Lane Keeping, Park Assist, Traffic Jam Assist, Lane Departure Warning and more.

Depending on the type of EPS system, a computer module applies assistive power via an electric motor coupled directly to either the steering gear or the steering column.

Column-assist EPS (**CEPS**) integrates system electronics (motor, controller and sensor) and the assist mechanism with the steering column. OEM customers that use our CEPS include: GM in various small cars, such as

the Aveo; Shanghai GM in the Sonic and the Captiva sport utility vehicle (**SUV**); and FCA in various small cars such as the Fiat 500. In China, we also offer an entry-level brush motor column-assist EPS (**BEPS**) specifically tailored for developing markets. OEM customers that use our BEPS include: SGMW for the Wuling Hongguang S/S3 minivan, Bao Jun 730 MPV and Bao Jun 510/560 SUV; Changan Automobile (Group) Co., Ltd. (**Changan**) for the Oushang MPV, CS15 and CS70 SUV.

Rack-assist EPS (**REPS**) integrates the required electric assist mechanism with the steering rack where they are contained under the hood in the engine compartment. OEM customers that use our REPS include: Ford in the F-150 pickup truck; FCA in the Ram pickup truck; and GM in various half-ton trucks and SUVs. We also supply our REPS in performance vehicles, including the Ford Mustang, Dodge Charger and Dodge Challenger.

Single pinion-assist EPS (**SPEPS**) integrates the electric assist mechanism with the steering gear pinion shaft. OEM customers that use our SPEPS include: PSA in the Citroën C3 and DS3; Dongfeng Peugeot Citroën Automobile Co., Ltd. (**DPCA**) in the Citroën C-Elysee and the Peugeot 2008; and BMW in the 1-series, 2-series, i3 and the Mini Cooper line.

Our Products

**HYDRAULIC POWER STEERING**

HPS uses high pressure fluids to assist driver steering. An engine-driven power steering pump creates system pressure. Pressurised fluid is then routed into a steering gear cylinder that turns the wheels of the vehicle. OEM customers that use our steering gears include: GM in its three-quarter ton trucks and large vans; and FCA in various light commercial vehicles. OEM customers that use our steering pumps include: FCA, GM and PSA.

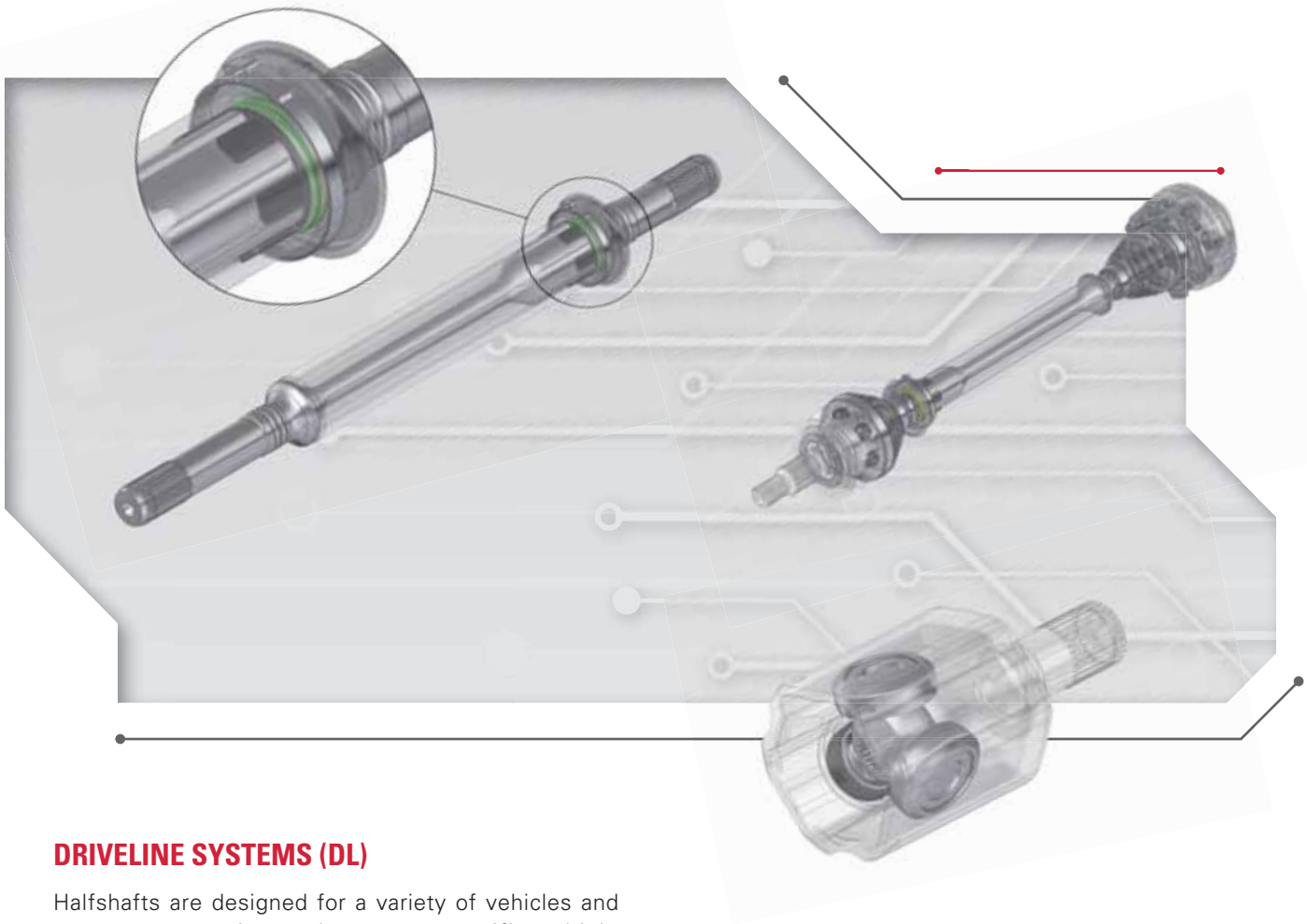
In North America, we produce two premium hydraulic based products; Magnetic Torque Overlay (**MTO**) and Smart Flow pump. These products bring advanced driver assistance functionality and reduced power consumption benefits. The MTO steering gear actuator targets three-quarter ton light trucks, medium- and heavy-duty trucks, semi-trailer trucks and buses. The Smart Flow pump reduces parasitic loss on the engine to improve operating efficiency. MTO and Smart Flow pump are currently available exclusively on GM three-quarter ton trucks; the GMC Sierra; and the Chevrolet Silverado. We also introduced an MTO cartridge valve that enables integration with OEMs' current gear configurations.

STEERING COLUMNS AND INTERMEDIATE SHAFTS (CIS)

CIS connect the steering wheel to the steering mechanism, to control steering by transferring the driver's input torque from the steering wheel. Our advanced steering columns provide convenience features and help protect the driver in the event of a crash. Convenience features include manual and power adjustability, theft deterrence, sensors, actuators and ergonomically designed controls. Advanced energy absorption systems help improve vehicle safety ratings and include our active systems that automatically compensate for the position of the driver to deliver optimum protection. We design these products for small cars, SUVs and trucks. OEM customers that use our steering columns include: GM in various full-size trucks and large vans; Chevrolet Impala and the Camaro; Cadillac ATS; and Ford in the F-150 pickup truck.



Our Products



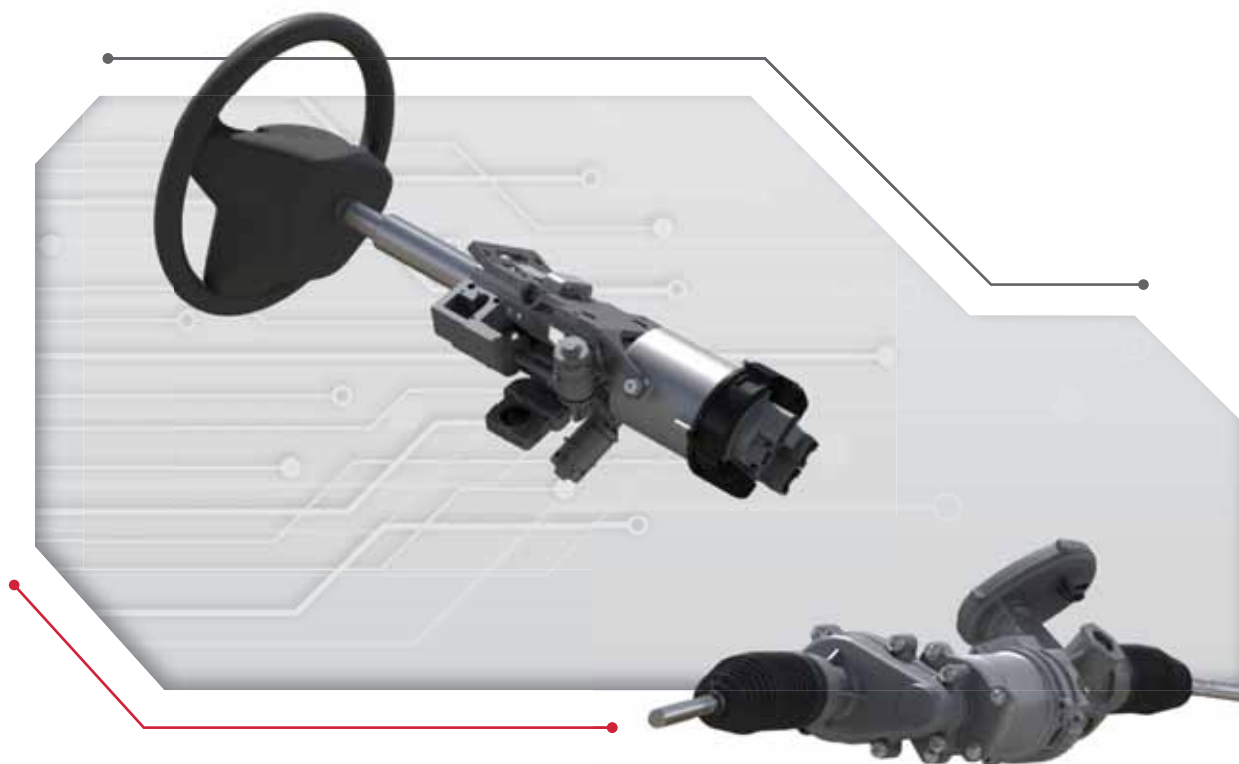
DRIVELINE SYSTEMS (DL)

Halfshafts are designed for a variety of vehicles and are custom engineered to meet specific vehicle requirements. OEM customers that use our halfshafts include: FCA, GM, PSA, VW and a number of China and India domestic OEMs.

Intermediate drive shafts work in conjunction with the halfshafts to improve vehicle handling and eliminate driveline disturbance issues on front wheel drive vehicles with unequal length axles, higher torque and running angles. In other words, drive shafts enhance a driver's comfort and control. OEM customers that use our intermediate drive shafts include FCA in its Dodge Caravan and GM in various crossover utility vehicles.

Propeller shaft joints are designed for high speed use in vehicles employing a front engine, rear drive powertrain configuration. OEM customers that use our propeller shaft joints include Ford in the Taurus, Flex and Fusion; and Lincoln on the MKT, MKS, MKZ.

Our Products



ENABLING TECHNOLOGIES OF ADAS AND AUTOMATED DRIVING (AD)

Steer-by-Wire (SbW): Centre Link in Our ADAS/AD Enabling Line-Up – In SbW, the mechanical connection between the road wheels and the steering wheel is replaced with electronics and actuators on the steering column and rack. This system, supporting both manual and automated driving, opens unprecedented new possibilities for advanced safety features, vehicle light-weighting and packaging flexibility. Nexteer's SbW emulates the "feel of the road" and offers a wide performance range – from sporty to luxury. The system's variable steering ratio enhances maneuverability, as well as factors into our SbW steering-feel achievement.

Quiet Wheel™ Steering – Enabled by SbW, Quiet Wheel™ Steering allows the steering wheel to remain still during automated driving mode – even while the vehicle is in the process of turning. Quiet Wheel™ Steering eliminates potential distractions and hazards of a fast-rotating steering wheel in front of the driver during hands-off driving, enhancing safety and sense of peace in the cabin.

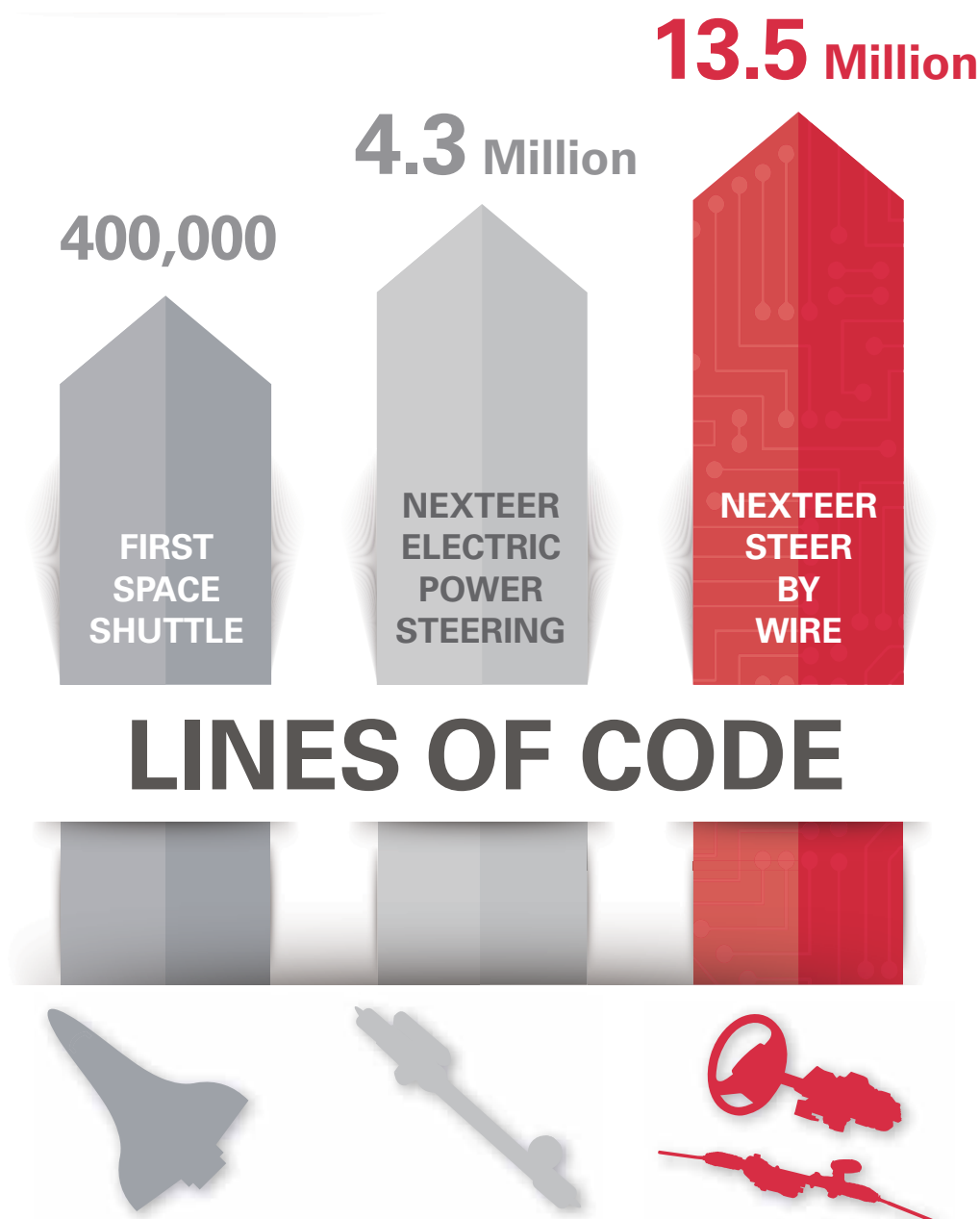
Stowable Steering Column – Vehicles equipped with Quiet Wheel™ Steering may also be fitted with a stowable column that retracts when automated driving is engaged, increasing available space for driver comfort and other activities.

Steering on Demand™ System (SoD) – With the press of a button or by simply grabbing the steering wheel, SoD enables the safe, intuitive transitions of steering control between manual driving and AD in vehicles capable of automated driving according to Society of Automotive Engineers Levels 3 and beyond.

Our Products

ENABLING TECHNOLOGIES OF ADAS AND AUTOMATED DRIVING (AD) (Continued)

High Availability EPS – Our safety net is always on. Nexteer's high availability EPS is designed for resilient operational availability, using top-rated components that are intelligently optimised and packaged with redundancies in torque and position sensors, ECUs, motor windings as well as dual sets of vehicle power and communication connectors. In addition to hardware redundancies, our software is built for simultaneous, multi-path processing to further enhance the safety net as the industry moves toward varying levels of automation. In fact, as we continue to add functionality and safety features – the number of lines of code required is astounding.



Our Products

ENABLING TECHNOLOGIES OF ADAS AND AUTOMATED DRIVING (AD) (Continued)

EPS as Key ADAS Enabler – EPS converts data from the vehicle's central ECU into mechanical steering functions. A sampling of EPS-enabled ADAS features includes: Lane Keeping, Park Assist, Traffic Jam Assist and Lane Departure Warning.

Cyber-Secure Advanced Steering – While our customers incorporate cyber security at the vehicle level, we further enhance safety by integrating multi-layer cyber security at the steering system level for maximum protection. Our cyber security technologies consist of specifically designed hardware modules on the semi-conductor level, as well as a multi-layered cryptographic software structure, that identifies and authorises information and command flow between the steering system and other in-vehicle or external controllers. As vehicles adopt advanced electronics to enable AD, internet connectivity and vehicle-to-everything (V2X) communication, cyber-secure steering technologies become ever more critical.

MTO – Delivers ADAS features for drivers of heavy duty trucks and up to Class 8 commercial vehicles. These ADAS features improve comfort, reduce driver fatigue as well as enhance safety for both the truck driver and others sharing the road. MTO-enabled ADAS features include Lane Keeping, Pull Compensation, Lane Departure Warning, Wheel Imbalance Rejection, Active Damping, Return to Centre and more. Before MTO, these features were found only in lighter vehicles capable of being steered by EPS.

INTUITIVE MOTION CONTROL**nex**teer
AUTOMOTIVE

Nexteer's In-House Technologies = ADAS, Automated Driving Building Blocks



A black and white photograph of two men at a trade show booth. Both men are wearing VR headsets and holding them up to their eyes. They are wearing dark zip-up jackets with the 'nexteer' logo on the left chest. The man on the left is also wearing a white shirt, a tie, and a lanyard with a 'nexteer' badge. Behind them is a white backdrop with the 'nexteer' logo and the word 'AUTOMOTIVE' repeated. The text 'BUSINESS OVERVIEW' is overlaid in large, bold, white capital letters on the left side of the image.

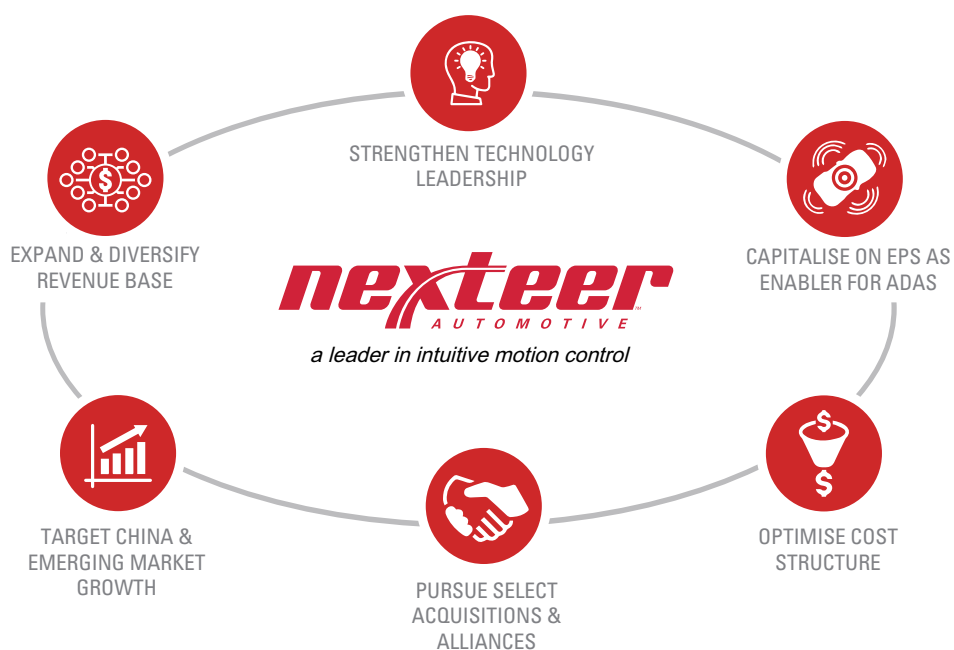
STRATEGY FOR PROFITABLE GROWTH

- Strengthen technology leadership
- Expand and diversify revenue base
- Capitalise on EPS as enabler for ADAS
- Target China and emerging market growth
- Optimise cost structure
- Pursue select acquisitions and alliances

2017 BUSINESS HIGHLIGHTS

The following are business highlights for 2017 which demonstrate Nexteer's focus on delivering profitable growth:

- Demonstrated market leadership with successful launch of 32 new customer programmes across multiple product lines, regions and customers
- Backlog of Booked Business Amount of US\$23.9 billion
- Continued expanding and rotating global business footprint
- Enhanced innovation leadership to drive core business growth
- Increased focus on operational efficiency improvement



A Well-Defined Plan to Drive Stakeholder Value

Business Overview

NEW PRODUCTION LAUNCHES

With the launch of 32 major customer programmes in 2017, including 3 programmes from one of our non-consolidated joint ventures, we introduced new or enhanced product applications in steering and driveline. These programmes included incumbent and conquest business. Customer programmes that began production in 2017 included:

OEMs	Vehicle Nameplate	Our Products
North America		
GM	Chevrolet Equinox, GMC Terrain	DL
	Chevrolet Traverse, Buick Enclave	REPS, DL
FCA	Jeep Wrangler Unlimited	Column, DL
Ford	Ford Expedition, Lincoln Navigator	Column, REPS
Europe & South America		
FCA	Fiat Argo, Cronos	CEPS
GM	Opel Crossland	SPEPS
PSA	Citroen C3 Aircross	SPEPS
Asia Pacific		
*Chongqing Bisu Automobile Co., Ltd.	Huansu H5	CEPS
BMW	1-Series, 2-Series, X1	SPEPS
*Changan	Changan CS55, Easo PHEV (C207)	CEPS
Dongfeng Liuzhou Motor Co. Ltd. (DFLM)	Jingyi S50 EV, Jingyi SX3, Jingyi SX7	CEPS
GM	Buick Velite, Chevrolet Equinox	DL
RNM	Renault Lodgy	DL
Tata Motors Limited	Ace, Iris, Majic, Zip, Osprey	DL
SGMW	Confero S, Cortez, Wuling C-SUV	CEPS

* Related to one of our non-consolidated joint ventures

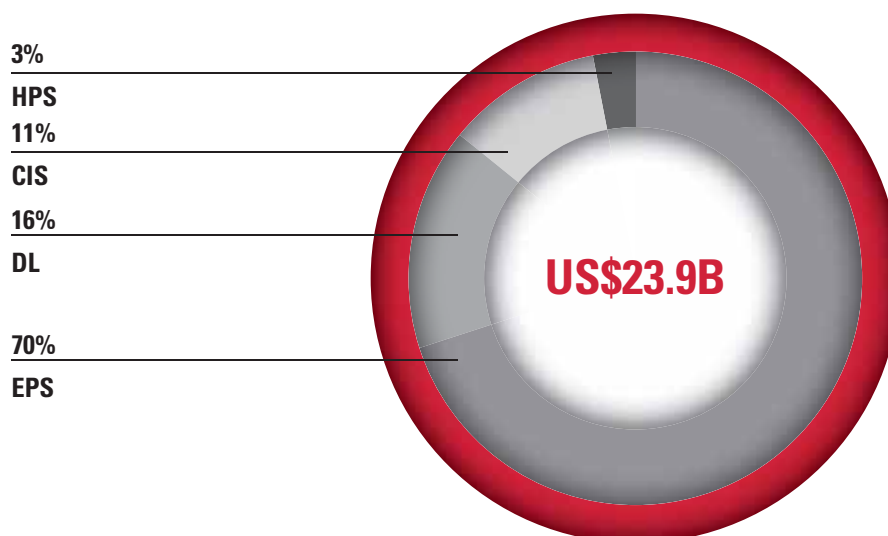
BACKLOG OF BOOKED BUSINESS

We begin to realise revenue under a new business contract as steering systems and driveline products are first shipped to vehicle manufacturers at the time of product launch. Product launches have historically lagged the date of contract award by an average period of 24 to 30 months. We have calculated a booked business backlog value which includes the value of awarded business for as yet, undelivered product generating revenue between the time of launch through the end of the life of the respective award. We estimate the value of all booked business under contracts that have been awarded, but for which we have undelivered products, amounts to approximately US\$23.9 billion (the **Booked Business Amount** or **Booked Business**) as at December 31, 2017. The Booked Business Amount decreased due to the partial cancellation of programmes, as well as other platform adjustments, as a result of GM's sale of its Opel-Vauxhall subsidiary to PSA during the year ended December 31, 2017.

The value of Booked Business is not a measure defined by International Financial Reporting Standards (**IFRS**), and our methodology for determining the Booked Business Amount may not be comparable to the methodology used by other companies in determining the value of their booked business. Assumptions relative to estimated lifetime programme volumes and contract performance remain unchanged from our disclosures in prior periods. Any modification or suspension of the contracts related to the Booked Business by the Group's customers may have a substantial and immediate effect on the value of the Booked Business. While we believe that our current Booked Business Amount is a relevant financial metric, we must emphasise that the information set out in this section in relation to the Booked Business and the Booked Business Amount shall not constitute any forecast or prediction of the revenue and profits of the Group and the actual value may differ from the estimated Booked Business Amount due to various factors beyond the Group's control.

Cumulative Booked Business:

Backlog by Product Group



Business Overview

PRODUCT RESEARCH AND DEVELOPMENT (R&D)**RELENTLESS INNOVATION IN WHAT WE DO: EXPANDED ADAS AND AD ENABLING TECHNOLOGY LINE-UP**

In 2017, we expanded our ADAS and AD enabling technology line-up as well as strategic alliances, market reach and global brand presence as a leader in intuitive motion control.

Nexteer took to the global stage to launch technology expansion over the course of 2017. For the first time, the Company showcased a substantial Tier-One presence at three global auto shows in one year: 2017 North American International Auto Show (**NAIAS**) and Automobili-D in Detroit, 2017 Auto Shanghai and 2017 Frankfurt IAA. At each show, we announced additional technologies and innovations, including:

- Steer-by-Wire
- Quiet Wheel™ Steering
- Stowable Steering Column
- Steering on Demand™ System
- High Availability EPS
- Cyber-Secure Advanced Steering
- Magnetic Torque Overlay
- EPS as a Key ADAS Enabler

EXPANDED STRATEGIC, ADAS AND AD ALLIANCES

In addition to expanding our ADAS/AD enabling technology suite, we expanded R&D and technology application through our technical joint venture with Continental Automotive Systems, Inc. (**Continental Automotive**), CNXMotion, LLC (**CNXMotion**), as well as our strategic partnership with WABCO Holdings Inc. (**WABCO**) and select ADAS development programmes with global customers.

CNXMotion – While our ADAS/AD enabling technology suite addresses current and future needs in lateral control, our R&D joint venture with Continental Automotive, CNXMotion, allows for expanded application by integrating steering with braking solutions. CNXMotion integrates longitudinal and lateral control technologies while accelerating R&D for both parent companies.

WABCO – Nexteer and WABCO announced a partnership to develop and supply active steering systems for medium- and heavy-duty commercial vehicles using our MTO technology. Consequently, our technology suite now offers comprehensive applications encompassing from small cars to commercial vehicles. Across our industry, these heavy vehicles continue to apply HPS as their steering solution. Our modular MTO product technology enables a substantial range of ADAS functionality by interfacing with the underlying hydraulic infrastructure manufactured by others.

Global OEMs – Nexteer also continued to expand our collaboration with global, technologically advanced OEMs. We secured seven new ADAS development programmes in 2017. These programmes represent a strategic element to growing future content per vehicle as well as maintaining our position as a global leader in intuitive motion control.

As we relentlessly innovate to solve motion control needs for today's world and a semi- to fully-automated future, we continue to add to our intellectual property roster. As at December 31, 2017, we have approximately 682 granted patents of which 530 are registered in the US and 152 non-US patents. In addition, we have approximately 556 patents pending of which 228 are pending in the US and 328 are non-US pending patents.

We expect customer, end-customer and legislative demands for these innovations to increase alongside demands for fuel efficiency, vehicle connectivity, cybersecurity, enhanced safety and other technologies to support semi- and fully-automated driving.

FOCUS ON OPERATIONAL EFFICIENCY AND COST COMPETITIVENESS

RELENTLESS INNOVATION IN HOW WE DO IT: DIGITAL TRACE™ MANUFACTURING

In recognition of its leadership in manufacturing excellence, Nexteer's Digital Trace™ Manufacturing (**DTM**) earned a Frost & Sullivan's Manufacturing Leadership Award in 2017 in the Enterprise Technology Leadership category for its global implementation of advanced manufacturing and analysis technologies. These technologies streamline and interconnect product warehousing, traceability, quality management and many other areas.

DTM is one of the most advanced, holistic and integrative approaches to design and manufacturing in the automotive industry. Our system uses the latest technologies and data analytics within one common, global architecture. As a result, we garner a dynamic, comprehensive view of our 24 global manufacturing operations in real time.

With this intimate understanding of our global operations, we can enhance proactive decision making, quality and traceability, customer value and responsiveness, ergonomics, productivity and capacity optimisation. Furthermore, this smart system allows us to quickly replicate improvements in design or production from one location across all global locations.

To make a system like DTM a reality, we are using a matrix approach, in which the thousands of manufacturing nodes from across our global operations are standardised and real-time communication is enabled. Each node represents a machine, process, database, document, workplace robot and any other source of data. When these nodes are connected, the result is one common, global architecture.

One of the major differences between what Nexteer is doing and what is commonly referred to in the industry as "digital thread" or "manufacturing automation" is the vastness of what Nexteer's DTM is covering. Because of the scope and the level of integration, it will take several phases to fully implement the entire system; however, the Company has already seen a positive impact on customer responsiveness and quality in the initial phases.

By implementing DTM, Nexteer introduces several cutting-edge technologies and processes into its manufacturing operations. Ultimately, DTM helps quality engineers proactively confirm product quality early in the process, potentially eliminating the need for costly end-of-line testing.

Some additional, real-world examples include:

- Using a heat map to visually identify high-risk pallets in real time, allowing service personnel to proactively perform maintenance before an issue occurs
- Tracking and storing serial number-specific data to measure performance along the manufacturing process
- Keeping a virtual "command centre" to analyse the root causes of rejected parts and make quick, corrective actions
- Integrating databases that capture product information so that complete analysis and swift problem-solving are possible
- Implementing a Manufacturing Execution System to monitor and manage processes in real time across factory floors

Business Overview

DTM will connect all of the Company's manufacturing data points into one entity, enabling us to:

- Garner clear, real-time viewpoints of global manufacturing activities
- Predict future potential manufacturing issues and proactively solve issues before they become reality
- Expedite and expand continuous improvements through a "smart" system that collects lessons learned and calibrates its decision-making accordingly
- Accelerate design-to-production timelines via enhanced global collaboration across Nexteer's regions and between manufacturing and product engineering divisions
- Optimise capacities, factory-floor logistics, inventory and planning
- Enhance component traceability for advanced quality control, tracking and reporting
- Streamline manufacturing employees' environments with data-driven, ergonomic workstation design
- Access a virtual "command centre" for global manufacturing insights – anywhere, anytime – to improve decision-making and problem-solving

NOTABLE 2017 EVENTS & MILESTONES

The following are our 2017 highlights indicative of our global growth along product mix, customers served and regions of operation.

Three Global Auto Shows in One Year & Year-Long Technology Announcements – As mentioned in the Product R&D section of this report, Nexteer took to the global stage to launch technology expansion over the course of 2017. For the first time, the Company showcased a substantial Tier-One presence at three global auto shows in one year. At each of the following shows, we announced new technologies and innovations.

- 2017 NAIAS and Automobili-D in Detroit
- 2017 Auto Shanghai
- 2017 Frankfurt IAA

A year later, at the 2018 NAIAS and Automobili-D, we culminated the year-long announcements and launches into showcasing one comprehensive, technology suite that solves motion control needs for today's world and future mobility. This technology showcase highlighted the "Nexteer Difference" in what we do. We also showcased the "Nexteer Difference" in how we do it by announcing DTM (covered in more detail under 'Focus on Operational Efficiency and Cost Competitiveness').

CNXMotion Joint Venture – In the first quarter of 2017, we announced our joint venture with Continental Automotive, CNXMotion, focused on integrating lateral and longitudinal control for mixed mode and automated driving applications. In the third quarter of 2017, CNXMotion held a grand opening ceremony for its new location in Grand Blanc, Michigan, US – strategically located between the two parent companies of the joint venture.

WABCO Partnership – In August 2017, we entered into an exclusive collaborative agreement with WABCO Holdings Inc. targeting commercial vehicle autonomy.

50 Million EPS Production Milestone – At the end of 2017, we reached a significant milestone by shipping our 50 millionth EPS unit worldwide. To put this achievement into perspective, the amount of fuel saved from 50 million EPS units would fill about 40 billion water bottles, saving more than 5 billion gallons of fuel.

REGIONAL MARKET GROWTH

In 2017, Nexteer continued to expand its global footprint of manufacturing facilities, customer service centres (**CSC**) and technical centres. During this expansion, the Company strategically rotated product planning and engineering services to be closer to our customers – driving greater efficiencies, responsiveness and strengthening customer relationships.

As at December 31, 2017, Nexteer's global footprint includes 24 manufacturing facilities, 4 technical centres and 14 CSCs.

The following is a brief overview of the key take-aways by region during 2017:

Asia Pacific - China

We announced a 50:50 joint venture with Dongfeng Motor Parts and Components (Group) Co., Ltd. (**Dongfeng Components**) for the manufacture of automotive steering. This joint venture – along with our joint venture with Chongqing Jianshe Industry (Group) Co., Ltd. – gives us a unique OEM access to 27% of the China domestic vehicle steering market.

Building on the four new product launches in 2016, we launched 16 new programmes in Asia Pacific throughout 2017. In addition, we also booked two new customers and two New Energy Vehicle programmes in the region during 2017.

The year brought major ground-breaking and opening ceremonies to the region. The Company broke ground on a new Asia Pacific Technical Centre in Suzhou Industrial Park in the third quarter of 2017. The centre is expected to be completed at the end of 2019. It will house approximately 1,000 employees, enhance technical support as well as customise product solutions, R&D, production, testing and validation for the Asia Pacific market.

Another ground-breaking at the end of 2017 included an EPS manufacturing facility in Liuzhou, China. We expect the new plant to be completed by October 2018. The plant will encompass 11,884 square meters and will house approximately 500 employees. With this new facility, we will expand our manufacturing capabilities, as well as meet growing customer demands for EPS products in the region.

The Asia Pacific market – and the China market specifically – continues to grow in importance to the Group. We operate as both a global Tier-One automotive supplier and a Chinese domestic enterprise to relate effectively with all customers and to maximise market opportunities.

Asia Pacific - Japan

We also opened a new CSC in Atsugi, Japan. This strategic addition to our footprint adds expanded customer support for RNM through application-specific engineering projects and coordination with its globally connected resources. As Nexteer's second location in Japan, the Atsugi CSC expands the Company's ability to better serve its Japanese customers.

Asia Pacific - Indonesia

We launched production from our first manufacturing facility in Cikarang, Indonesia. As a wholly-owned subsidiary of Nexteer, the Indonesia plant will initially manufacture BEPS systems.

Asia Pacific - Australia

Nexteer concluded production at the Keysborough, Australia location and transitioned the facility into a CSC to provide in-region customer support in sales, engineering, quality and programme management.

Europe & South America Region - Brazil

We launched four major customer programmes and celebrated a new facility grand opening in Porto Real, Brazil. The Company continued to ramp up operations at our second plant in Brazil to serve the growing needs of our EPS customers. The new Porto Real plant works closely with our existing Porto Alegre operations to deliver SPEPS systems.

North America – US and Mexico

Out of the total of 32 programmes launched globally in 2017, 12 of the programmes were launched in North America. Furthermore, the Company dedicated a fourth manufacturing facility in Mexico in January 2017. Located in Juarez, the new plant focuses on steering column production for our North American customers. The new facility increases capacity, improves customer responsiveness and positions the Company to meet future market demands.

Business Overview

INDUSTRY RECOGNITION

Throughout 2017, Nexteer was recognised for exemplary work in manufacturing, quality and supplier-customer relationships. Following is a sampling of the many awards earned in 2017:

- Earned Frost & Sullivan's Manufacturing Leadership Award for Enterprise Technology Leadership
- Ford Motor Company Awarded Nexteer with Aligned Business Framework Status – Exclusive Supplier-Partner Status Leading to Greater Openness, Dialogue and Longer-Term Contracts
- GM Recognised Nexteer Saginaw Plant 4, Suzhou Plants 51 and 53 with "Supplier Quality Excellence" Award
- *Forbes Magazine* Listed Nexteer as One of "America's Best Mid-Size Employers 2017"
- Nexteer Automotive (Suzhou) Co., Ltd. (**Nexteer Suzhou**) Won SGMW 2017 Supplier Continuous Improvement "Lean Production Effective Advance Award"
- Nexteer Liuzhou Received 2017 Excellent Supplier Award and 2018-19 Strategic Supplier from DFLM
- Nexteer Suzhou Plant 51 Earned the "2017 Excellent Supplier" Award from DPCA
- Nexteer Won "2017 SGMW Best Supplier" – Only Five Suppliers Out of 700 Earned this Distinction for Outstanding Performance in Quality, Responsiveness, Delivery and Cost
- Nexteer Won the "Overseas Development Award" for its Support of SGMW's Overseas Business Expansion
- SGMW Recognised Nexteer Liuzhou With an "Excellent Supplier Award" for Quality, Service, Design and Cost Performance
- Ford Asia-Pacific Nominated Nexteer Suzhou for the "World Excellence Award" for Outstanding Quality, Delivery and Cost Performance
- China Association for Quality Gave Nexteer Two First-place Certifications at National Six Sigma Project Competition – 1) Nexteer Lingyun Driveline (Zhuozhou) for Reducing Assembly Line First Time Quality and 2) Nexteer Suzhou (with GM China) for Improved Line Capacity
- Nexteer Mexico Plant 66 Won "Built in Quality" Award from GM
- Nexteer Mexico Plant 65 was Formally Recognised for Quality Results by Ford Motor Company
- Nexteer Mexico was Recognised by Toyota With a Certificate of "Achievement for Quality Performance"
- Nexteer Poland Earned "Innovations in the Automotive Industry" Award at 2017 Motoldea Conference
- Nexteer Brazil Won "2017 Great Place to Work" Award
- Nexteer Brazil Earned "Quality and Productivity Award of the Rio Grande do Sul State" and the "Impact at Work Award 2017"

Nexteer not only wins industry awards and recognition, we help our customers win awards too:

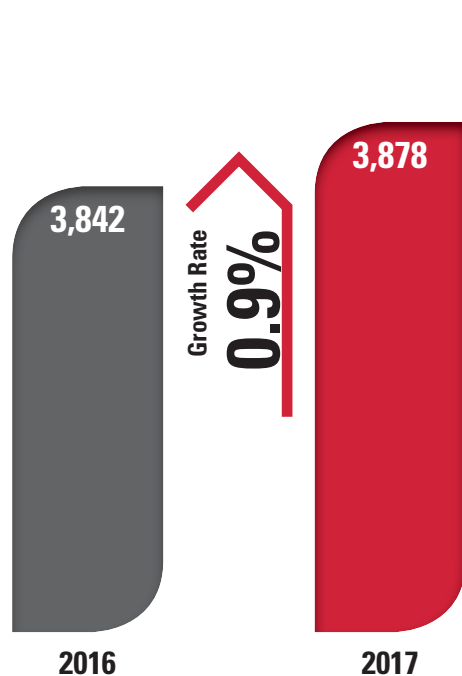
- 2017 Motor Trend Truck of the Year: Ford Super Duty Truck Featuring Our Column Technology
- 2017 Motor Trend Car of the Year: Chevy Bolt Featuring Nexteer's Column EPS, Intermediate Shaft and Manual Gear Technologies
- 2018 NAIAS Truck of the Year: Lincoln Navigator Featuring Our REPS and Column Technologies

Financial Highlights

Results (US\$'000)	2017	2016	Growth rate
Revenue	3,878,009	3,842,244	0.9%
Gross profit	674,275	661,665	1.9%
Profit before income tax	405,049	386,006	4.9%
Income tax expense	(49,171)	(84,141)	(41.6%)
Profit attributable to equity holders of the Company	351,769	294,723	19.4%
Profit for the year	355,878	301,865	17.9%
Adjusted EBITDA	621,284	578,092	7.5%

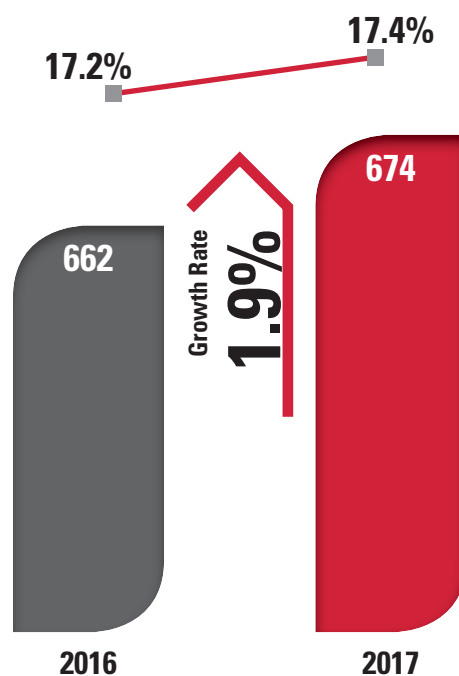
REVENUE

US\$ million



GROSS PROFIT

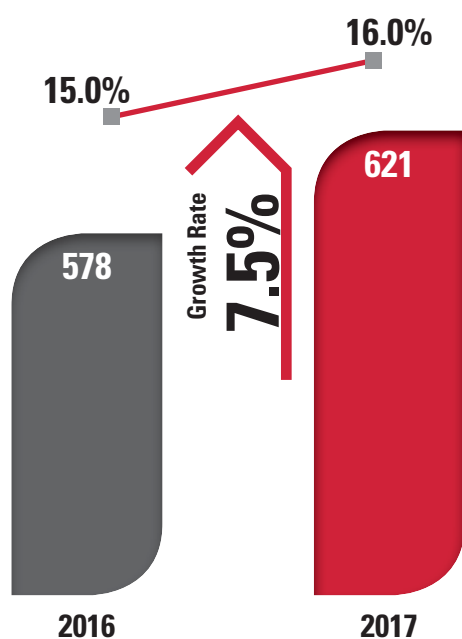
US\$ million



Financial Highlights

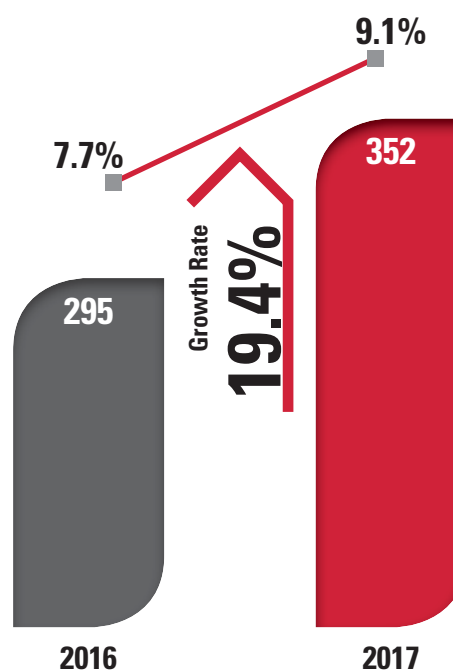
ADJUSTED EBITDA

US\$ million



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

US\$ million



Assets and Liabilities (US\$'000)	2017	2016	Change
Non-current assets	1,418,162	1,265,813	12.0%
Current assets	1,561,221	1,427,555	9.4%
Non-current liabilities	670,252	742,019	(9.7)%
Current liabilities	868,416	860,326	0.9%
Capital and reserves attributable to equity holders of the Company	1,402,411	1,058,991	32.4%

These financial highlights should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2017 (the **Consolidated Financial Statements**).

Chairman's Statement



"As a growing, balanced enterprise we are well positioned for the future, and we are driven by entrepreneurial thinking and a focus on technology leadership."

ZHAO Guibin
Chairman

Dear Shareholders:

On behalf of the Board of Directors of Nexteer (the **Board**), I present to our shareholders (the **Shareholders**) the annual report for the financial year ended December 31, 2017.

The Company has performed well – measured against both our own historical performance and competitive peers. During 2017, we continued rotation of the global business along the axes of customers served, product mix and regions of operation.

We continued to expand our global footprint in regions of strategic importance to our diverse customer base. In the first quarter, we opened a new electric power steering (**EPS**) assembly facility in Porto Real, Brazil and a new plant in Juarez, Mexico. In the second quarter, we opened a new plant in Cikarang, Indonesia focused on column-assist EPS production. In the third quarter, we opened a customer service centre in Atsugi, Japan, and in the fourth quarter we finished the calendar year with two groundbreakings in China: One for a new Technical Centre in Suzhou, China and one for a new plant in Liuzhou, China. We also optimised our footprint further with the planned transition of our manufacturing facility in Keysborough, Australia into a customer service centre.

2017 was also marked with strategic joint ventures and partnerships. We entered into a 50:50 joint venture with Dongfeng Components for the manufacture of automotive steering. With our two China-based joint ventures, we have positioned ourselves with more access to the China domestic vehicle steering market.

We also established a joint venture with Continental Automotive, CNXMotion. The joint venture's purpose is to integrate advanced steering and braking technologies for autonomous applications and accelerate R&D activities for both parent companies. CNXMotion is now operating from its new facility in Grand Blanc, Michigan, US – strategically located between the two parent companies.

We also announced an exclusive partnership with WABCO to develop and supply ADAS-enabling steering systems for medium- and heavy-duty commercial vehicles using our Magnetic Torque Overlay (**MTO**) technology. This partnership expands our market reach from small cars to heavy duty trucks – now all the way up to commercial vehicles.

During 2017, we announced a comprehensive suite of advanced technologies for vehicle autonomy, which we showcased to the industry through NAIAS and Automobili-D in Detroit, Shanghai Autoshow and

Chairman's Statement

Frankfurt IAA. These advanced technologies include Steer-by-Wire, Steering on Demand™ System, Quiet Wheel™ Steering, Stowable Column, High Availability EPS, MTO and Cyber-Secure Advanced Steering.

We leverage both our in-house ADAS building blocks as well as in-house ownership of the entire manufacturing process from R&D to design, validation, electronics, software, systems integration and manufacturing. Several of our advanced technologies will progress to commercial production starting from 2019. Our strong innovation leadership in these new steering technologies drives our future core business growth.

We also need to mention that Frost & Sullivan honored the Company with a 2017 Manufacturing Leadership Award for our Digital Trace™ Manufacturing; one of the most advanced, holistic, integrative approaches to design and manufacturing systems in the automotive industry. The system uses the latest technologies and data analytics within one common, global architecture. This smart system allows us to quickly replicate improvements in design or production from one location across all global locations. As a result, we garner a dynamic, comprehensive view of our 24 global manufacturing operations in real time. With this intimate understanding of our global operations at any given minute, we can enhance proactive decision making, quality and traceability, customer value and responsiveness, ergonomics, productivity and capacity optimisation.

As we continue to optimise our global footprint – bringing product planning and engineering closer to our customers – our manufacturing capability and prowess will continue to be an advantage for us in delivering high-quality, safety-critical systems to our diverse customer base. We are driving value creation for all Shareholders.

Our capital structure remains healthy, supporting the Company's continuing growth. In October 2017, Standard & Poor's raised our Company's credit rating to investment grade 'BBB-'.

REVIEW OF RESULTS

For the year ended December 31, 2017, the Group's revenue was US\$3,878.0 million, representing an increase of approximately 0.9% from US\$3,842.2 million in 2016. Profit attributable to equity holders of the Company was US\$351.8 million representing an increase of 19.4% from US\$294.7 million in 2016. The Group's gross profit was US\$674.3 million, representing an increase of 1.9% from US\$661.7 million in 2016.

Nexteer continues to make global diversification a priority. In 2017, 65.3% of revenue was delivered from North America, 22.0% from Asia Pacific, 12.7% from Europe and South America.

FUTURE PROSPECTS

The mobility landscape is rapidly changing. Global OEMs, Tier-One suppliers and new entrants alike are competing to capitalise on future opportunities via strategic partnerships, new innovations and new ways of doing global business in what was once a very traditional industry. Nexteer is not alone in this quest.

Nexteer's difference is part of our competitive advantage within this environment. We will continue to innovate not only in our products and technologies, but also in how we operate. We are relentless innovators in what we do and how we do it.

With a solid profitable growth strategy, the Company is poised for continued success in an industry where only the most innovative, agile, quality and value-focused participants will succeed.

APPRECIATION

The Board and I would like to express our gratitude to all of our employees worldwide and their personal commitment to quality and value creation. Together, we are focused on continuing global business growth along the three axes of customers served, product mix and regions of operation. We will continue to drive consistent growth among our core products while also relentlessly innovating solutions for tomorrow's mobility challenges. As 2017 has proven, we remain committed to building on our position as a global leader in intuitive motion control.

In addition to our gratitude for our global Nexteer team, I wish to express our collective appreciation to you – our Shareholders. Thanks to your support, Nexteer has flourished in a highly competitive, fast-paced, global marketplace while also building a solid foundation for continued growth.

ZHAO Guibin

Chairman

March 13, 2018

A black and white photograph of a young woman with shoulder-length wavy hair, smiling at the camera. She is wearing a dark-colored button-down shirt with the 'nexteer AUTOMOTIVE' logo on the left chest. She is holding a stack of papers in front of her. The background is a blurred industrial or office setting. A solid red vertical bar is on the left side of the image.

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

The following management discussion and analysis should be read in conjunction with the Consolidated Financial Statements, included herein, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board.

FINANCIAL REVIEW

Financial Summary

The Group advanced its strong financial position in 2017. Despite stable global production volumes industry wide, the Group was able to capitalise on a positive product mix and experience revenue growth across two of its three geographical segments. The Group also continued to successfully launch new products to deliver continued top line revenue growth. The Company's top line growth through successful launches and focus on operational efficiency continues to drive earnings and cash flow accretion, despite limited automotive market production growth.

Operating Environment

The global automotive market has a direct impact on our business and operating results. The factors affecting the industry include macro-economic factors such as consumer confidence, fluctuations in commodity, currency, fuel prices and regulatory environments. The Company operates primarily in the US, Mexico, China, Poland, India and Brazil. Automotive industry production levels increased in 2017 over 2016 despite stable, yet lacklustre, growth in the global economy. According to IHS Markit Ltd., global light vehicle production in North America decreased 4.0% for the year ended December 31, 2017 compared to the year ended December 31, 2016. Global light vehicle production for the Asia Pacific segment in total for the year ended December 31, 2017 increased 2.4% compared to the year ended December 31, 2016. Global light vehicle production for the Europe and South America segment in total increased 5.2% for the year ended December 31, 2017 compared to the year ended December 31, 2016.

The Group's profit attributable to equity holders of the Company for the year ended December 31, 2017 was US\$351.8 million or 9.1% of total revenue, an increase of 19.4% compared to the year ended December 31, 2016 of US\$294.7 million or 7.7% of total revenue. This increase was attributable to the following:

- Successfully launched new production of awarded programmes across multiple regions and customers
- Improved product line mix
- Increased customer demand due to market strength
- Focus on continuous improvement in operating efficiency and cost competitiveness
- Significant one-time deferred tax benefit as a result of US tax reform legislation

Management Discussion and Analysis

Revenue

The Group's revenue for the year ended December 31, 2017 was US\$3,878.0 million, an increase of US\$35.8 million or a 0.9% increase from the year ended December 31, 2016 of US\$3,842.2 million. According to IHS Markit Ltd., global OEM production volume increased 1.9% from the year ended December 31, 2016 to the year ended December 31, 2017. The Group's revenue was negatively impacted by US\$0.9 million of foreign currency translation. The Asia Pacific segment revenue was negatively impacted by foreign currency translation that was mainly offset by the Europe and South America segment's positive foreign currency translation impact.

We measure the results of our operations by geographic segment regions. The change in revenue is analysed by volume, mix and price. Volume measure changes are driven by the volume of products sold. Mix changes are driven by the type of products sold. Price measures the impact of changes within the pricing structure of each product sold.

Revenue by Geographical Segments

For the year ended December 31, 2017, the Group experienced an increase in global revenue compared to the year ended December 31, 2016.

The following table sets forth revenue by geographic segments for the periods indicated:

	For the year ended December 31, 2017		For the year ended December 31, 2016	
	US\$'000	%	US\$'000	%
North America	2,533,912	65.3	2,513,626	65.4
Asia Pacific	854,470	22.0	899,382	23.4
Europe and South America	489,627	12.7	429,236	11.2
Total	3,878,009	100.0	3,842,244	100.0

The change in revenue by geographical segments is primarily due to the following:

- The North America segment experienced a 0.8% increase in revenue for the year ended December 31, 2017 compared to the year ended December 31, 2016. The North America segment held strong, despite a decline in industry volume as it was able to capitalise on the continued increase in North America full-size truck production with a favourable product mix. According to IHS Markit Ltd., OEM production volume in North America decreased 4.0% for the year ended December 31, 2017 compared to the year ended December 31, 2016, however, full-size truck production increased 2.0% for the same period. The North America segment launched 10 new customer programmes in 2016 and 12 new customer programmes in 2017.
- The Asia Pacific segment experienced a 5.0% decrease in revenue for the year ended December 31, 2017 compared to the year ended December 31, 2016. The decrease was directly attributable to fluctuations in the exchange rates coupled with decreased customer demand schedules as our major customers in the segment produced at levels below the industry average. The Asia Pacific segment experienced US\$10.8 million of negative foreign currency translation impact. The Asia Pacific segment revenue would have decreased by 3.8% for the year ended December 31, 2017 compared to the year ended December 31, 2016, excluding the negative foreign currency translation impact. According to IHS Markit Ltd., OEM production volumes in the Asia Pacific segment increased 2.4%, while China's OEM market production volume increased 2.1%, for the year ended December 31, 2017 compared to the year ended December 31, 2016. The Asia Pacific segment launched 21 new customer programmes in 2016 and 16 new customer programmes in 2017.

Management Discussion and Analysis

- The Europe and South America segment experienced a 14.1% increase in revenue for the year ended December 31, 2017 compared to the year ended December 31, 2016. This increase was attributable to improved customer production volumes as well as US\$9.9 million positive foreign currency translation impact. The Europe and South America segment revenue would have increased 11.8% for the year ended December 31, 2017 compared to the year ended December 31, 2016, excluding the positive foreign currency translation impact. According to IHS Markit Ltd., OEM production volume in Europe and South America increased 5.2% for the year ended December 31, 2017 compared to the year ended December 31, 2016. OEM production in South America increased 25.9% for the year ended December 31, 2017 compared to the year ended December 31, 2016 and OEM production in Europe increased 3.2% for the same period. The Europe and South America segment launched 2 new customer programmes in 2016 and 4 new customer programmes in 2017.

Revenue by Products

The following table sets forth the Group's revenue by product lines for the period indicated:

	For the year ended December 31, 2017		For the year ended December 31, 2016	
	US\$'000	%	US\$'000	%
EPS	2,482,301	64.0	2,383,742	62.0
HPS	177,356	4.6	186,745	4.9
CIS	636,711	16.4	635,257	16.5
DL	581,641	15.0	636,500	16.6
	3,878,009	100.0	3,842,244	100.0

The increase in revenue resulted from the growth of EPS products sold. Volume increases have followed customer demand as well as the successful launches of conquest business from the backlog of Booked Business. The decrease in DL revenue resulted from lower production schedules from key customers.

Cost of Sales

The Group's cost of sales for the year ended December 31, 2017 was US\$3,203.7 million, an increase of US\$23.1 million from US\$3,180.6 million for the year ended December 31, 2016. The Group's cost of sales for the year ended December 31, 2017 primarily included raw material costs of US\$2,257.8 million (year ended December 31, 2016: US\$2,252.5 million), manufacturing expense of US\$881.8 million (year ended December 31, 2016: US\$861.5 million), as well as other costs of sales of US\$64.1 million (year ended December 31, 2016: US\$66.6 million).

The Group's cost of sales increased as a result of increased sales volume, partially offset by cost efficiencies in raw material. The Group experienced increased depreciation on property, plant and equipment and increased amortisation of capitalised product development costs in the year ended December 31, 2017 when compared to the year ended December 31, 2016. The increase in depreciation and amortisation is consistent with an increase in programmes launched. Depreciation and amortisation charged to cost of sales for the year ended December 31, 2017 was US\$173.3 million, an increase of US\$17.9 million from US\$155.4 million for the year ended December 31, 2016.

Included in other costs of sales for the year ended December 31, 2017 was impairment of property, plant and equipment of US\$9.5 million (year ended December 31, 2016: nil) related to equipment that had been purchased and in construction to be used for specific customer programmes that were canceled during the year, as discussed in note 6 to the Consolidated Financial Statements.

Amortisation of capitalised product development costs recorded as cost of sales amounted to US\$76.8 million for the year ended December 31, 2017, representing 2.0% of revenue, an increase of US\$12.0 million from US\$64.8 million or 1.7% of revenue for the year ended December 31, 2016. We expect amortisation expense to continue to increase in future years with the launch of new programmes that are currently in development.

Management Discussion and Analysis

Gross Profit

The Group's gross profit for the year ended December 31, 2017 was US\$674.3 million, an increase of US\$12.6 million or 1.9% from US\$661.7 million for the year ended December 31, 2016. Gross profit percentage for the year ended December 31, 2017 was 17.4%, an increase of 20 basis points as compared to 17.2% for the year ended December 31, 2016. The increase in both gross profit and gross profit percentage was attributable to increased market growth, improved product line mix and the effect of cost improvement initiatives. These benefits were partially offset by depreciation on property, plant and equipment and amortisation of capitalised product development costs.

Engineering and Product Development Costs

For the year ended December 31, 2017, the Group's engineering and product development costs charged to the income statement were US\$124.0 million, representing 3.2% of revenue, an increase of US\$0.7 million as compared to US\$123.3 million or 3.2% of revenue for the year ended December 31, 2016. While the Group incurred significant engineering expense related to new product development, the increase in expense experienced during 2017 was offset by a non-recurring impairment charge of US\$12.2 million recorded during the year ended December 31, 2016. Excluding the impairment charge of US\$12.2 million for the year ended December 31, 2016, the Group's engineering and product development costs charged to the consolidated income statement would have been US\$111.1 million, representing 2.9% of revenue, and there would have been an increase of US\$12.9 million or 11.6% for the year ended December 31, 2017 compared to the year ended December 31, 2016.

Engineering development costs capitalised as intangible assets, including capitalised interest, for the year ended December 31, 2017 were US\$125.3 million, representing 3.2% of revenue, an increase of US\$3.6 million from US\$121.7 million or 3.2% of revenue for the year ended December 31, 2016. Capitalised interest related to engineering development costs totalled US\$10.5 million for the year ended December 31, 2017 and US\$7.0 million for the year ended December 31, 2016.

The Group's aggregate investment in R&D is defined as the sum of costs charged to the consolidated income statement (excluding impairment charges associated with a prior period) and total costs capitalised as intangible assets. For the year ended December 31, 2017, the Group incurred aggregate investment in R&D of US\$249.3 million, an increase of US\$16.5 million as compared to US\$232.8 million for the year ended December 31, 2016.

Administrative Expenses

The Group's administrative expenses for the year ended December 31, 2017 were US\$110.6 million, representing 2.9% of revenue, a decrease of US\$3.9 million as compared to US\$114.5 million or 3.0% of revenue for the year ended December 31, 2016.

Other Gains, net

Other gains, net represents gains attributable to foreign exchange transactions, losses on disposal of property, plant and equipment and fair value losses on derivative financial instruments. Other gains for the year ended December 31, 2017 were US\$4.2 million, a decrease of US\$2.8 million compared to a gain of US\$7.0 million for the year ended December 31, 2016. The decrease is due to a non-recurring US\$15.5 million gain recorded during the year ended December 31, 2016 associated with the settlement of an intercompany loan and an increase in losses on disposal of property, plant and equipment partially offset by non-recurring losses on derivative financial instruments associated with foreign exchange contracts recorded during the year ended December 31, 2016.

Finance Costs, net

Finance costs, net, consist of interest income and expense reduced by interest capitalised on qualifying assets and product development. The Group's net finance costs for the year ended December 31, 2017 were US\$21.3 million which is a decrease of US\$8.9 million as compared to US\$30.2 million from the year ended December 31, 2016. The amount of capitalised interest on qualifying assets was US\$10.7 million for the year ended December 31, 2017 (year ended December 31, 2016: US\$7.3 million).

Management Discussion and Analysis

Share of (Loss) Income of Joint Ventures

Share of (loss) income of joint ventures relates to the Company's investments in Chongqing Nexteer Steering Systems Co., Ltd. (**Chongqing Nexteer**), Dongfeng Nexteer Steering Systems (Wuhan) Co., Ltd. and CNXMotion. The Group's share of loss for the year ended December 31, 2017 was US\$1.8 million, which is a decrease of US\$2.5 million as compared to income of US\$0.7 million for the year ended December 31, 2016, as a result of reduced revenue caused by lower production schedules from Chongqing Nexteer's key customers. Additionally, the joint venture with Dongfeng Motor Parts and Components (Group) Co., Ltd. was formed during 2017 and has not yet commenced production, but has incurred organisational costs. CNXMotion is a joint research and development entity for the development of ADAS technologies and will not generate direct revenue but has and will continue to incur engineering related costs.

Income Tax Expense

The Group's income tax expense was US\$49.2 million for the year ended December 31, 2017, representing 12.1% of the Group's profit before income tax, a decrease of US\$34.9 million from US\$84.1 million, or 21.8% of profit before tax for the year ended December 31, 2016. The US\$34.9 million decrease in income tax expense is primarily the result of a non-recurring income tax benefit of US\$39.0 million related to remeasurement of deferred tax assets and liabilities as required by the recent US tax reform legislation. The Company estimates that US tax reform will reduce our annual effective tax rate by approximately three to four percentage points.

On December 22, 2017, President Donald Trump signed into law "H.R.1", formerly known as the "Tax Cuts and Jobs Act", which among other items reduces the US federal corporate income tax rate from 35% to 21% with effect from January 1, 2018. As a result, the Company has remeasured its deferred tax assets and liabilities as at December 31, 2017, which is the period of substantive enactment of the legislation. The Company's deferred tax assets and liabilities generally represent a decrease or an increase, respectively, in corporate income taxes expected to be paid in the future. The impact to the Company is that the net deferred tax liabilities were revalued downward, with a corresponding deferred income tax benefit of approximately US\$39.0 million.

Provisions

As at December 31, 2017, the Group has provisions of US\$107.7 million for restructuring, litigation, environmental liabilities, warranties and decommissioning, an increase of US\$1.9 million as compared to US\$105.8 million as at December 31, 2016. This increase in provisions was primarily due to the net change in warranty reserves.

Liquidity and Capital Resources

Cash Flows

Our business requires a significant amount of working capital, which is primarily used to finance the purchase of raw materials, capital spending for customer programmes and engineering and product development costs. We have historically met our working capital and other capital requirements principally from cash generated from operations and loans from banks. We utilise a combination of strategies, including intercompany dividends, cash pooling arrangements, intercompany loan structures and other distributions and advances to provide the funds necessary to meet our global liquidity needs. We utilise a global cash pooling arrangement to consolidate and manage our global cash balances, which enables us to efficiently move cash into and out of a number of the countries in which we operate. In recent years, the Group has invested extensively in capital equipment and engineering and product development costs. For the year ended December 31, 2017, the Group invested US\$236.4 million and US\$115.1 million in capital equipment and intangible assets, respectively.

The Company has a positive total cash flow for the years ended December 31, 2017 and 2016. We believe that funds generated from operations and cash on hand will be adequate to fund our liquidity and capital requirements.

Management Discussion and Analysis

The following table sets forth a condensed statement of cash flows for the Group for the years indicated:

	For the year ended December 31, 2017 US\$'000	For the year ended December 31, 2016 US\$'000
Cash generated from (used) in:		
Operating activities	624,770	509,392
Investing activities	(357,418)	(283,369)
Financing activities	(168,843)	(155,300)
Net increase in cash and cash equivalents	98,509	70,723

Cash Flows Generated from Operating Activities

For the year ended December 31, 2017, the Group's net cash generated from operating activities was US\$624.8 million, an increase of US\$115.4 million compared to US\$509.4 million for the year ended December 31, 2016. The increase in cash flows from operating activities is primarily due to increased earnings as well as a strong improvement in managed working capital and a decrease in cash taxes paid.

Cash Flows Used in Investing Activities

The Group's cash flows used in investing activities primarily reflect capital spending for customer programmes. Our capital expenditures include cash expenditures for the purchases of machinery, equipment and tooling and investment in product development.

The following table sets forth the cash used in investing activities within the Group for the years indicated:

	For the year ended December 31, 2017 US\$'000	For the year ended December 31, 2016 US\$'000
Purchase of property, plant and equipment	(236,389)	(166,714)
Addition of intangible assets	(115,089)	(118,004)
Proceeds from sale of property, plant and equipment	2,051	1,964
Change in restricted bank deposits	(5,742)	(615)
Investment in joint ventures	(2,249)	–
Net cash used in investing activities	(357,418)	(283,369)

Cash Flows Used in Financing Activities

The Group's net cash used in financing activities was US\$168.8 million for the year ended December 31, 2017, which was attributable to the net repayment of borrowings of US\$76.4 million, finance costs paid of US\$34.9 million, dividends paid of US\$59.9 million, offset by proceeds from the exercise of share options of US\$2.4 million.

Management Discussion and Analysis

Indebtedness

As at December 31, 2017, the Group's total borrowings was US\$491.2 million which is a decrease of a US\$72.9 million from US\$564.1 million as at December 31, 2016. This decrease is primarily due to the utilisation of cash generated from operations to pay maturing debt.

The following table sets forth the balances of short and long-term borrowing obligations within the Group for the years indicated:

	December 31, 2017 US\$'000	December 31, 2016 US\$'000
Current borrowings	76,030	74,446
Non-current borrowings	412,378	486,140
Finance lease obligations	2,773	3,561
Total borrowings	491,181	564,147

The table below sets forth the maturity profile of borrowings within the Group for the years indicated:

	For the year ended December 31, 2017 US\$'000	For the year ended December 31, 2016 US\$'000
Within 1 year	77,036	75,488
Between 1 and 2 years	99,171	75,668
Between 2 and 5 years	314,974	412,991
Over 5 years	–	–
Total borrowings	491,181	564,147

Details of the borrowings of the Group during the period are set out in note 16 to the Consolidated Financial Statements.

Pledge of Assets

The Group has several secured borrowings at certain subsidiaries. The assets securing the borrowings differ by site and include accounts receivable, inventories, property, plant and equipment, the equity interests of certain subsidiaries and intellectual property. For the year ended December 31, 2017, the Group had approximately US\$1,032.9 million total assets pledged as collateral, a decrease of US\$9.5 million from the US\$1,042.4 million as at December 31, 2016.

Management Discussion and Analysis

Exposure to Currency Rate Fluctuations and Related Hedges

The Group seeks to limit its foreign currency exposure through matching its purchase of materials and sale of finished goods in the same currencies subject to sourcing constraints. The Group monitors its remaining foreign currency exposure regularly to reduce the risk of foreign currency fluctuations in its operations. Historically, the Group hedged its US dollar exposure risk to the Mexican peso, Polish zloty and European euro by participating in a hedging programme that included forward exchange contracts. The Company did not have any outstanding hedging instruments as at December 31, 2017 and December 31, 2016.

Gearing Ratio

The Group monitors capital structure on the basis of the gearing ratio. The gearing ratio is calculated as total borrowings divided by total equity at the end of the respective year.

The gearing ratio as at December 31, 2017 was 34.1%, a decrease of 1,760 basis points as compared to December 31, 2016, which was 51.7%. The gearing ratio decreased compared to 2016 as a result of a paydown on existing borrowings.

OTHER INFORMATION**Future Prospects**

The Group strives to maintain leadership in global advanced steering and driveline systems, ADAS and AD technologies. We boost our prospects by leveraging five key areas: 1) relentless innovation; 2) depth and breadth of our product portfolio; 3) systems integration experience; 4) in-house ownership of R&D, design testing and manufacturing; and 5) global manufacturing footprint and prowess. Our global footprint continues to enable our capitalisation on the market transition to EPS and continued growth in China and other emerging markets. In addition to strengthening and expanding our current business and customer relationships, we are positioned to capitalise on the “next conversion wave” to Steer-by-Wire as well as pursue selected strategic acquisitions and/or alliances globally.

Employees and Remuneration Policy

As at December 31, 2017, the Group had approximately 12,300 full-time employees. The Group’s remuneration policies are formulated based on the performance of individual employees and the Company’s performance and are reviewed regularly. Our full-time employees participate in various employee benefit plans including retirement benefits, extended disability benefits and workers’ compensation. In addition, we have adopted employee incentive plans designed to attract, retain, motivate and encourage employees to commit to enhancing value for us and our Shareholders as a whole. For example, the Group has retention programmes that include individual development plans, merit wage adjustments, annual incentive plans and promotions.

Based on the workload of the Group, we engage approximately 1,100 employees on a contract basis as at December 31, 2017. We offer training programmes to our full-time and contract employees which are designed to develop the skills that we need to meet our enterprise goals and customer requirements and to meet certain training requirements such as mandated customer or regulatory requirements and contractual obligations.

Directors and Senior Management

DIRECTORS

The Board is responsible and has general powers for the management and conduct of our business. The following table sets out certain information concerning the Directors of the Company (the **Directors**) during the year ended December 31, 2017 and as at the date of this annual report:

Name	Age	Position title	Date of appointment(s)	Roles and responsibilities
Executive Directors				
ZHAO, Guibin (趙桂斌)	53	Chairman, Executive Director and Chief Executive Officer	June 15, 2013 and June 2012, respectively	Overseeing our Group's strategic vision, direction and goals and overseeing the overall execution of our Group's strategy
RICHARDSON, Michael Paul	61	Executive Director and President	June 15, 2013 and October 1, 2016, respectively	Overseeing our Group's strategic planning
FAN, Yi (樊毅)	51	Executive Director, Vice President and Joint Company Secretary	August 21, 2012, November 14, 2013 and January 28, 2013, respectively	Managing our Group's operations and handling of company secretarial duties
Non-Executive Directors				
LU, Daen (錄大恩) ⁽¹⁾	57	Non-Executive Director	August 21, 2013	As a non-Executive Director
WANG, Xiaobo (王曉波) ⁽²⁾	41	Non-Executive Director	August 21, 2013	As a non-Executive Director
YANG, Shengqun (楊勝群) ⁽³⁾	47	Non-Executive Director	March 14, 2017	As a non-Executive Director
ZHANG, Jianxun (張建勛) ⁽⁴⁾	38	Non-Executive Director	March 13, 2018	As a non-Executive Director
Independent Non-Executive Directors				
TSANG, Hing Lun (曾慶麟) ⁽⁵⁾	67	Independent non-Executive Director	June 15, 2013	As an Independent non-Executive Director
YICK, Wing Fat Simon (易永發) ⁽⁶⁾	59	Independent non-Executive Director	August 15, 2017	As an Independent non-Executive Director
LIU, Jianjun (劉健君)	49	Independent non-Executive Director	June 15, 2013	As an Independent non-Executive Director
WEI, Kevin Cheng (蔚成)	50	Independent non-Executive Director	June 15, 2013	As an Independent non-Executive Director

Notes:

- (1) Mr. LU, Daen resigned as our non-Executive Director with effect from and upon the conclusion of the Board meeting held on March 14, 2017 due to adjustment of work arrangements.
- (2) Mr. WANG, Xiaobo resigned as our non-Executive Director with effect from December 31, 2017 due to adjustment of work arrangements.
- (3) Mr. YANG, Shengqun was appointed as our non-Executive Director with effect from March 14, 2017.
- (4) Mr. ZHANG, Jianxun was appointed as our non-Executive Director with effect from March 13, 2018.
- (5) Mr. TSANG, Hing Lun passed away on June 4, 2017.
- (6) Mr. YICK, Wing Fat Simon was appointed as our Independent non-Executive Director with effect from August 15, 2017.

Directors and Senior Management

Executive Directors

ZHAO, Guibin (趙桂斌), (Chairman and Chief Executive Officer), aged 53, was appointed as our Executive Director and Chairman of the Board on June 15, 2013. He is also our Chief Executive Officer since June 2012. Mr. ZHAO has 20 years of relevant experience in the automotive industry. He is primarily responsible for setting our strategic vision, direction and goals and overseeing the overall execution of our Group's strategy. Mr. ZHAO is also a Director and the Chairman of the Board of Directors of Nexteer Automotive Corporation, one of our indirectly wholly-owned subsidiaries. Mr. ZHAO has been the Chairman of the Board of Directors of Pacific Century Motors, Inc. (**PCM China**), our controlling shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (**Hong Kong Stock Exchange**)) of the Company, since December 2010, and Chairman of the Board of Directors and General Manager of AVIC Automotive Systems Holding Co., Ltd. (**AVIC Auto**), a subsidiary of Aviation Industry Corporation of China, Ltd. (formerly known as Aviation Industry Corporation of China) (**AVIC**), our controlling shareholder, since 2010 and from 2009 to 2010, respectively. Since August 2016, Mr. ZHAO has been Chairman of the Board of Directors of AVIC Hande (Beijing) Investment Holding Co., Ltd. (**Hande**) and Henniges Automotive Holdings, Inc. (**Henniges**), both of which are non wholly-owned subsidiaries of AVIC Auto, and from September 2015 to August 2016, he was a Director of Hande and Henniges. Since December 2015, Mr. ZHAO has been a Director of AVIC Capital Co., Ltd., a non wholly-owned subsidiary of AVIC, a company listed on the Shanghai Stock Exchange (stock code: 600705). From April 2010 to April 2013, Mr. ZHAO was the Chairman of the Board of Directors of AVIC Heavy Machinery Co. Ltd., a non wholly-owned subsidiary of AVIC, and a company listed on the Shanghai Stock Exchange (stock code: 600765). From 1997 to 2003, Mr. ZHAO was the General Manager of Sichuan Lingfeng Aeronautics Hydraulic Machinery Co., Ltd., a wholly-owned subsidiary of AVIC, where he was in charge of corporate governance and operational management. He was appointed as General Manager, Director and Chairman of AVIC Chengdu Engine (Group) Co., Ltd., a wholly-owned subsidiary of AVIC, and as a Director and the Chairman of the Board of its non wholly-owned subsidiary, Sichuan Chengfa Aero Science and Technology Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600391) in August 2003. Mr. ZHAO became a first-tier senior economist in September 2004, awarded by AVIC. He was awarded an executive master's degree in business administration by the University of Electronic Science and Technology of China, China, in June 2007. Mr. ZHAO has received numerous awards in recognition of his achievements, including the Government Special Allowance awarded by the People's Republic of China State Council in 2000.

RICHARDSON, Michael Paul, aged 61, is our Executive Director and President of Nexteer Automotive. He served as Senior Vice President and Chief Strategy Officer from June 2012 to June 2016 with responsibility for Nexteer's strategic planning as well as mergers and acquisitions. He is a member of Nexteer's Global Strategy Council (**GSC**). Mr. RICHARDSON began his automotive career with General Motors in 1974 as a student at the former Saginaw Steering Gear Division. Following a range of assignments that include the supervision of skilled trades, plant, product and manufacturing engineering, he was named Staff Engineer for the halfshaft product line in 1990. Mr. RICHARDSON opened the division's Tokyo office in 1991 as Delphi Steering initiated the export of driveline products to Toyota Japan. In 1992, Mr. RICHARDSON was named Staff Engineer for steering products. Mr. RICHARDSON launched and patented magnetic variable effort hydraulic steering. He also initiated a rapid response approach to customer prototyping and won the General Motors President's Council Award for aftermarket product alignment and de-proliferation. In 1995, Mr. RICHARDSON was named Regional Director of Engineering and Production Control and Logistics, based in Paris, France. He returned to the US in 1999 as Chief Engineer of HPS and QUADRASTEER™. He was named Director of Engineering for Delphi Steering in 2001. Mr. RICHARDSON was inducted into the Delphi Inventors Hall of Fame for lifetime innovation in 2004. In 2006, Mr. RICHARDSON was named Regional Director Asia-Pacific and relocated to Shanghai, China. During this period, all regional sites were separated from Delphi Automotive in preparation for a global business sale of Nexteer. He led the construction of four new production sites, five CSCs and an autonomous regional headquarters. In 2009, he returned to the US and was named Vice President of the steering business line. This period brought focus to EPS and a radical transformation of product technologies. In 2011, Mr. RICHARDSON was named Chief Operating Officer China division for Nexteer while retaining business line and global engineering responsibilities. A native of Midland, Michigan, Mr. RICHARDSON holds a bachelor's degree in engineering from Kettering University, the US and a master's degree in business administration from Central Michigan University, the US. He also holds an Executive Masters Professional Director Certification from the American College of Corporate Directors. Mr. RICHARDSON is a professional engineer, certified quality engineer and unlimited-rating stationary power engineer. He is a Boss Kettering Award recipient and the author of numerous intellectual properties.

Directors and Senior Management

FAN, Yi (樊毅), aged 51, was appointed as our Director on August 21, 2012 and was designated as our Executive Director on June 15, 2013. He was appointed as our Joint Company Secretary on January 28, 2013 and was appointed as our Vice President on November 14, 2013. He is responsible for the management of our operations and handling of company secretarial duties. Mr. FAN is also a member of the GSC. Mr. FAN has approximately 19 years of relevant experience in the automotive industry. Mr. FAN currently serves as a Director of our three directly held subsidiaries, Nexteer UK Holding Ltd., Nexteer (China) Holding Co., Ltd., PCM (Singapore) Steering Holding Pte. Limited and as a Director of several of our other subsidiaries. Mr. FAN has held the following positions in our controlling shareholders, namely, Deputy General Manager of AVIC Auto since January 2012; General Manager since July 2013 and Director and Secretary to the Board of Directors of PCM China since 2010; and the sole Director of Nexteer Automotive (Hong Kong) Holdings Limited (**Nexteer Hong Kong**) since its incorporation in August 2012. From 1992 to 1999, Mr. FAN worked at the economic research centre of AVIC Corporation. From 1999 to 2005, Mr. FAN served as Managing Director of the automotive department of China Aviation Industry Corporation II. In 2005, he started working in the automotive department of AviChina Industry & Technology Company Limited, a company listed on the Hong Kong Stock Exchange (stock code: 2357), a non wholly-owned subsidiary of AVIC, where he was initially Deputy Manager, and was later appointed as Manager in 2007. Mr. FAN graduated in 1987 from Beijing Aviation Institute of Aeronautics and Astronautics, China (now known as Beijing University of Aeronautics and Astronautics, China) with a bachelor's degree in engineering from the Faculty of Automatic Control, and completed a master's research course in education, economics and management from Beijing University of Aeronautics and Astronautics, China, from 1999 to 2001. Mr. FAN was certified as a researcher in natural sciences by AVIC in September 2007.

Non-Executive Directors

YANG, Shengqun (楊勝群), aged 47, was appointed as our non-Executive Director on March 14, 2017. Mr. YANG is responsible for the Group's strategy and key operations and advising on our strategy and policy. Mr. YANG has 28 years of relevant experience in the automotive industry. Since July 2016, he has served as the Director and General Manager of AVIC Auto. Since February 2017, he has served as a Director of PCM China. From July 2014 to August 2016, he was appointed as the Director of the AVIC Beijing Aeronautical Manufacturing Technology Research Institute. From September 2010 to July 2014, he was appointed as the Director of AVIC Beijing Precision Engineering Institute Aircraft Industry. From June 2004 to September 2010, he served in the positions of Deputy Chief Engineer and Director of the Technical Centre, the Deputy General Manager, the Chief Engineer and the Director of Science and Technology Committee of Shenyang Liming Aero-Engine Group Corporation Ltd. (**Liming Corporation**). From September 2000 to June 2004, he served as the Chief Engineer, the Plant Manager and the Director of the International Cooperation Department of Liming Corporation and the Assembly Test Plant Chief Engineer at the subcontract branch of Liming Corporation. From August 1992 to September 2000, he served as a Technologist, the Head of Technologist and the Head of the Workshop in Liming Corporation. He graduated with a Bachelor of Engineering from the school of Mechanical Engineering, Northwestern Polytechnical University, China in 1992. In April 2007, he received a doctorate degree in Materials Science and Engineering from Harbin Institute of Technology, China. Mr. YANG was awarded the position of Senior Researcher by AVIC in November 2008.

ZHANG, Jianxun (張建勳), aged 38, was appointed as our non-Executive Director on March 13, 2018. Mr. ZHANG is responsible for the Group's strategy and key operations and advising on our strategies and policies. Mr. ZHANG was appointed as a Director of PCM China, our controlling shareholder, in January 2018. He has held the position of Investment Director of Beijing E-Town International Investment & Development Co., Ltd. (**Beijing E-Town**) since November 2017. Mr. ZHANG has been the Chairman of the Board of Directors and General Manager of Beijing Mobile E-Town Co., Ltd. and the Chairman of the Board of Directors of Beijing E-Town International Industries Investment & Development Co., Ltd. since January 2016. From December 2013 to October 2015, Mr. ZHANG served as the General Manager of SongLiao Automobile Co., Ltd. (known as Cultural Investment Holdings Co., Ltd. since April 2016), a company listed on the Shanghai Stock Exchange (stock code: 600715). From December 2012 to December 2013, Mr. ZHANG held the position of the Head of the Asset Management Department of Beijing E-Town. From November 2008 to December 2012, he served as the Deputy General Manager of Zhongti Advertising Company Limited/Beijing Zhongti Hua'ao Consultation Co., Ltd. Prior to this, Mr. ZHANG served as a Project Leader of the Market Development Department of Beijing Organizing Committee for the Olympic Games from April 2005 to October 2008. Mr. ZHANG graduated with a major in communication and information system and obtained a master's degree in engineering from Tianjin University, China in September 2003. In addition, he obtained a master's degree in international marketing management in December 2004 from the University of Leeds, the United Kingdom.

Directors and Senior Management

Independent Non-Executive Directors

YICK, Wing Fat Simon (易永發), aged 59, was appointed as our Independent non-Executive Director on August 15, 2017. Mr. YICK has over 31 years of experience in audit, direct investment, investment banking and corporate advisory services. Mr. YICK currently serves as an independent non-executive director, chairman of the audit committee and member of remuneration committee and member of nomination committee of China Singyes Solar Technologies Holdings Limited (Stock Code: 750), Shenzhen Neptunus Interlong Bio-technique Company Limited (Stock Code: 8329) and Shanghai International Shanghai Growth Investment Limited (Stock Code: 770) (all of which are listed on the Hong Kong Stock Exchange). Mr. YICK is also an independent non-executive director, convener of the remuneration and assessment committee and a member of the strategy committee of Chengdu Xingrong Environment Co., Ltd. (Stock Code: 000598.SZ), a company listed on the Shenzhen Stock Exchange. Mr. YICK was a director of the following Hong Kong incorporated private companies limited by shares which were dissolved by way of deregistration: China Q-Buy Food Company Limited (dissolved on March 2, 2012, which was dormant), Grace Silver Investments Limited (dissolved on October 3, 2008, which was dormant), Daytune Corporate Services Limited (dissolved on August 20, 2004, which provided corporate secretarial services), and Continental Race Limited (dissolved on October 27, 2000, which principally engaged in the leasing of office premises). Mr. YICK confirmed that the aforementioned companies were solvent at the time of dissolution by deregistration and that no misconduct or misfeasance on his part as director led to the relevant company's dissolution, nor is he aware of any actual or potential claim that has been or will be made against him as a result of any of the above dissolutions. Mr. YICK holds a bachelor's degree in business administration, majoring in accounting, from the Chinese University of Hong Kong. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Chartered Association of Certified Accountants in England.

LIU, Jianjun (劉健君), aged 49, was appointed as our Independent non-Executive Director on June 15, 2013. Mr. LIU was in the legal department of China Ocean Shipping (Group) Company container lines (中國遠洋運輸集團總公司集裝箱運輸) from July 1993 to March 1999, a Partner at Zhong Sheng Law Firm (北京中盛律師事務所), Beijing from April 2001 to October 2006, a Senior Associate in Zhong Lun Law Firm, Beijing (北京中倫律師事務所) from November 2006 to May 2007, and has been a Partner at Zhonglun W&D Law Firm (北京中倫文德律師事務所), Beijing since June 2007. Mr. LIU started practicing as lawyer in China in August 2001. He obtained a master's degree in law from Peking University, China, in July 1998, and a law degree from Washington University in St. Louis, the US, in May 2004.

WEI, Kevin Cheng (蔚成), aged 50, was appointed as our Independent non-Executive Director on June 15, 2013. Mr. WEI is currently a Managing Partner of a company focused on corporate finance advisory and investment banking business. Mr. WEI has held the following independent non-executive directorships in publicly listed companies: as an independent non-executive director of Tibet Water Resources Ltd., a company listed on Hong Kong Stock Exchange (stock code: 1115), since March 2011; and as an independent non-executive director of Wisdom Sports Group (stock code: 1661) since July 2013. Mr. WEI served as a Chief Financial Officer of IFM Investments Limited, a real estate services company headquartered in Beijing, from December 2007 to September 2013. IFM Investments Limited was delisted from NYSE in 2015. Prior to that, from 2006 to 2007, Mr. WEI served as the Chief Financial Officer of Solarfun Power Holdings Co., Limited (stock code: SOLF), a NASDAQ listed solar company (now known as Hanwha SolarOne Co., Ltd. and relisted on NASDAQ as Hanwha SolarOne (stock code: HSOL). Mr. WEI became a member of the American Institute of Certified Public Accountants in February 1999. He graduated in June 1991 from Central Washington University, the US, where he received his Bachelor of Science degree (cum laude) with a double major in accounting and business administration.

Directors and Senior Management

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The table below shows certain information in respect of the senior management of our Company (collectively, the **Senior Management**) during the year ended December 31, 2017 and as at the date of this annual report:

Name	Age	Position/Title
QUIGLEY, William G.	56	Senior Vice President and Chief Financial Officer
LIU, Tao (柳濤)	53	Senior Vice President and Global Chief Operating Officer
HOEG, Dennis Steven	62	Vice President and Chief Operating Officer – North America Division
BOYER, Herve Paul	47	Vice President and Chief Operating Officer – Europe and South America Division
LI, Jun (李軍)	46	Vice President and Chief Operating Officer – Asia Pacific Division
PASTOR, Ricardo Antonio	52	Vice President, Global Quality and Programme Launch
KALKMAN, Jesse	49	Vice President, Global Sales and Marketing
ZIPARO, Peter Michael	48	Vice President and General Counsel
MILAVEC, Robin Zane	50	Vice President, Global Engineering
SPICER, Steven Charles	57	Vice President, Global Electric Power Steering

QUIGLEY, William G., aged 56, was appointed as our Senior Vice President and Chief Financial Officer on June 6, 2016. He is responsible for overseeing investor relations, treasury, capital funding and structure, mergers and acquisitions, accounting and financial reporting, financial planning and analysis and information technology. Mr. QUIGLEY is also a member of the GSC. He is also a Director and Audit Committee Chairman at The Safariland Group. He previously served as Executive Vice President and Chief Financial Officer at Dana Holding Corporation from March 2012 to March 2016. Additionally, he held various managerial positions at Visteon Corporation, including Vice President, Chief Accounting Officer from January 2005 to 2007 and Executive Vice President and Chief Financial Officer from 2007 to 2011. Mr. QUIGLEY obtained a Bachelor of Arts degree in accounting from Michigan State University, the US, in 1983 and became a member of the American Institute of Certified Public Accountants in 1986.

LIU, Tao (柳濤), aged 53, was appointed as our Senior Vice President and Global Chief Operating Officer on October 1, 2016 and is responsible for overseeing operations and global supply management. Prior to his current role, Mr. LIU served as our Vice President and Chief Operating Officer – China division since August 2013. He is responsible for the business plan, the overall financial position and advising on strategic direction of the China division of our Group. Mr. LIU has approximately 20 years of relevant experience in the automotive industry. He is also a member of GSC. From May 2012 to July 2013, Mr. LIU was an Executive Director of the China division, where he was responsible for the business plan and the overall financial position of the China division. He served as the China Operations Manager and Executive Director of China Operations from October 2009 to May 2012 and Managing Director of Saginaw Steering (Suzhou) Co., Ltd. from February 2008 to October 2009. Prior to this, Mr. LIU worked at Delphi Automotive Systems (China) Holding Co., Ltd., where he served as China Operations Manager of Delphi Steering, responsible for the manufacturing facilities in Suzhou and overseeing manufacturing operations of the China division from 2006 to 2008. He served as General Manager of China Operations of Metaldyne Powertrain Group from January 2005 to May 2006, and was the Asia Pacific Delphi Manufacturing System Manager of Energy, Chassis and Steering System and a Manufacturing Manager of Delphi Shanghai Dynamics & Propulsion Systems Co., Ltd. from 2001 to 2004 and from 1997 to 2001, respectively. He also worked at Shanghai Machine Tool Works Plant from August 1987 to December 1996. Mr. LIU obtained a bachelor's degree in industrial automation from Tsinghua University, China, in 1987 and a master's degree in business administration from Purdue University, the US, in 2001.

Directors and Senior Management

HOEG, Dennis Steven, aged 62, was appointed as our Vice President and Chief Operating Officer – North America Division on November 16, 2017. He is responsible for the entire North America business, gaining commitments from the business lines and leveraging corporate functions to meet the business plan of the division. He was previously Vice President of Global Operations, Manufacturing Engineering and Capital Enterprise Systems since December 2012. He has 40 years relevant automotive experience and is also a member of the GSC. Mr. HOEG served as Vice President of Engineering at Nexteer Automotive from June 2011 to November 2012. He was Executive Director of Global Supply Management from 2007 to 2011, Director of Global Manufacturing Engineering from 2002 to 2007, and Plant Manager from 1999 to 2002 at Delphi Saginaw Steering Systems. Mr. HOEG began his automotive career with GM in 1978 as a Manufacturing Engineer at the former Saginaw Steering Gear division. In 1997, he was Programme Manager for the GMT800 and L/N/P90 programmes in Plant 7, Chief Manufacturing Engineer for Hydraulic Steering in 1994, and Staff Engineer for integral gears in 1992. Following a number of assignments that included Plant Engineer, Process Engineer, Advanced Manufacturing Engineer, and Assistant Staff Engineer, he served as the Value Stream Manager for steering valves at Plant 7 in 1988. He obtained a bachelor's degree in mechanical engineering from Iowa State University, the US, in May 1978, and a Master of Science from Purdue University, Indiana, the US, in May 1983.

BOYER, Herve Paul, aged 47, was appointed as our Vice President and Chief Operating Officer – Europe and South America Division in March 2016. He is responsible for gaining commitments from the business lines and leveraging corporate functions to meet the business plan of the division. He is also a member of the GSC. Mr. BOYER has over 23 years of relevant experience in the automotive industry. From May 2015 to February 2016, Mr. BOYER held the position of Executive Director of the NBHX Electronics group where he had the responsibility to run the Interior Trims business. Prior to this, Mr. BOYER spent several years within the Faurecia group where he served as President of North America Operations from June 2012 for the Interior Systems business group. From January 2009 to June 2012, Mr. BOYER was Vice President of the South Europe perimeter of Faurecia Interior Systems and previously served as Vice President for French, US and Japanese Divisions, from May 2008 to December 2008. Mr. BOYER has also served as Director for the Renault-Nissan division from January 2006 to May 2008. From 2001 to 2005, Mr. BOYER held several sales and marketing positions at Faurecia Interior Systems and served as Programme Manager from September 1994 when he joined Sommer Allibert Industrie which was acquired by Faurecia group in late 2000. Mr. BOYER earned a degree in manufacturing engineering from L'Ecole Centrale de Nantes, France, in 1994 and attended the Advance Management Programme of Harvard Business School, the US, in 2014.

LI, Jun (李軍), aged 46, was appointed as our Vice President and Chief Operating Officer – Asia Pacific Division on November 16, 2017. He is responsible for overseeing our Asia Pacific division business and operations, gaining commitments from the business lines and leveraging corporate functions to meet the business plan of the division. He is also a member of the GSC. Mr. LI offers over 20 years of relevant experience in the automotive industry. Prior to his current role, Mr. LI was Executive Director and Chief Operating Officer – Asia Pacific Division with the same responsibility from October 2016. Before that, he served as Asia Pacific Steering Business Director from February 2015 to October 2016 and was responsible for developing the overall business plan and competitiveness. From May 2012 to January 2015, Mr. LI held the position as General Manager to oversee the operation on Nexteer Automotive (Suzhou) Co., Ltd.. From 2010 to May 2012, Mr. LI served as Plant Manager and was responsible for the overall operation management of Nexteer Suzhou Plant 53. During 2008 and 2010, he took the role as Programme Manager of China's first EPS Programme management at Saginaw Steering (Suzhou) Co., Ltd. From 2004 to 2007, Mr. LI served as Programme Launch Manager and Engineering Manager at Delphi Automotive in Shanghai. Prior to joining Nexteer and Delphi Automotive, he held various supervisory positions in manufacturing, project management and engineering at Dongfeng Motor Group for 6 years, and 5 years at China Aerospace Science and Technology Corporation. He obtained a Diploma in Science and Technology in mechanical engineering from Huazhong University of Science & Technology, China in 1991, and a master's degree in business administration from the University of Electronic Science & Technology of China, China in 2004.

Directors and Senior Management

PASTOR, Ricardo Antonio, aged 52, was appointed as our Vice President, Global Quality and Programme Launch on November 16, 2017. He is responsible for all facets of the Global Quality function including strategic planning, execution, measurement and administration of Quality systems and controls. He is also in charge of Customer Programme Implementation (**CPI**) where he leads the optimisation of the CPI process and oversees programme launches to ensure successful performance. Mr. PASTOR is a member of the GSC. Mr. PASTOR brings over 33 years of experience in the automotive industry. Mr. PASTOR served as Executive Director of Global Quality at Nexteer since June 2015. Prior to leading the Global Quality function, he was Quality Director for the International and China divisions from 2010 to 2015. Mr. PASTOR was senior manager in manufacturing planning in 2009, Director of footprint expansion for Asia Pacific from 2006 to 2009 and Chief Engineer for Europe from 2004 to 2006 at Delphi Automotive. Mr. PASTOR held many other leadership positions in engineering quality and programme launch prior to 2006. Over his career, Mr. PASTOR had nine years of expatriate assignments between Europe and China. Mr. PASTOR began his automotive career with General Motors in 1984 at the former Saginaw Steering Gear Division. He obtained a Bachelor of Science degree in electrical engineering with minors in mathematics and chemistry, summa cum laude, from Saginaw Valley State College, the US, in 1987 and a Master of Science degree in electrical engineering from Oakland University, the US, in 1990.

KALKMAN, Jesse, aged 49, was appointed as our Vice President, Global Sales and Marketing on November 10, 2016 and is responsible for extending the Company's global reach and leads the Company's Sales and Marketing teams to enable sustainable growth for current and future customers across all product lines, including product innovations in autonomous driving and adjacent markets. Mr. KALKMAN is a member of the GSC. He offers over 26 years of service in the automotive industry, including several positions in Sales, Programme Management, Manufacturing Engineering, and Project Engineering. Mr. KALKMAN most recently served as Executive Director, Global Sales and Marketing since March 2014 and North America Sales Director since July 2012. In these roles, Mr. KALKMAN was responsible for growing company revenue and backlog of new business through a strong focus on customer relationships. Under Mr. KALKMAN's direction, the Company expanded market share with targeted customers across all product lines globally. Mr. KALKMAN served as global customer manager of the Ford account from 2008 to 2012. From 1999 to 2008, Mr. KALKMAN served in various positions in the Steering Columns and Intermediate Shaft Product Line including: Programme Manager, Manufacturing Engineering Manager and Global Business Line Sales Manager. Mr. KALKMAN served as Project Engineer at Prince Corporation/Johnson Controls, Inc. from 1994 to 1998. Mr. KALKMAN began his career at the former Saginaw Steering Gear Division in Product Engineering from 1991 to 1994. Mr. KALKMAN holds a Bachelor of Science in mechanical engineering from Kettering University, the US, and a Master of Business Administration from Northwood University, the US.

ZIPARO, Peter Michael, aged 48, was appointed as our Vice President and General Counsel on December 1, 2016. He is responsible for managing all global legal and compliance matters for the Group. Mr. ZIPARO offers over 16 years of relevant experience in the automotive industry and over 24 years of legal experience. Mr. ZIPARO is also a member of the GSC. Prior to joining Nexteer, he served as Vice President and General Counsel of Visteon Corporation, a Tier-One automotive supplier from April 2014 to March 2016, an Assistant General Counsel from 2005 to 2014 and an Associate General Counsel from 2002 to 2005. Mr. ZIPARO's experience also includes posts as Corporate Associate with international law firms, Morrison & Foerster LLP and Chadbourne & Parke LLP. He obtained a Bachelor's degree, with honors in mathematics, from Hamilton College, the US, in May 1991 and a Juris Doctor degree, magna cum laude, from Albany Law School, the US, in May 1994.

Directors and Senior Management

MILAVEC, Robin Zane, aged 50, was appointed as our Vice President of Global Current Product Engineering on June 5, 2017, and Vice President of Global Engineering on January 1, 2018. He is responsible for our global product and manufacturing engineering. Mr. MILAVEC is a member of the GSC. He has over 28 years of relevant experience in the automotive industry, including positions in Product Engineering, Manufacturing Engineering, Operations and Quality. At Nexteer Automotive, he served as Executive Director of Global Product Engineering from August 2016 to June 2017, Director of Corporate Engineering and Global Programme Office from 2012 to 2016 and Chief Product Engineer for EPS from 2009 to 2012. At Delphi Saginaw Steering Systems, he served as Chief Product Engineer for Driveline from 2005 to 2009, Chief Manufacturing Engineer for Driveline from 2003 to 2005, and as Quality Manager for Saginaw plants 4 and 5 from 2000 to 2003. He served as an Engineering Supervisor at the Delphi Automotive Mexico Technical Centre in Juarez, Mexico from 1995 to 1997. Mr. MILAVEC began his career with General Motors in 1989 as a Product Engineer at the former Saginaw Steering Gear Division, and held several positions in engineering, quality and operations prior to his Mexico assignment in 1995. He obtained a Bachelor's degree in mechanical engineering from New Mexico State University in Las Cruces, New Mexico, the US, in 1989 and a Masters' degree in mechanical engineering from the University of Michigan in Ann Arbor, Michigan, the US, in 1992.

SPICER, Steven Charles, aged 57, was appointed as our Vice President, Global Electric Power Steering on June 5, 2017. He is responsible for the global EPS technology and product portfolio. Mr. SPICER is a member of the GSC. He offers over 35 years of relevant experience in the automotive industry, including positions in sales, marketing and engineering. Mr. SPICER most recently served as Product Line Executive, Electric Steering since 2013 and he is responsible for growing global EPS business. He was Global Business Line Sales Manager, Electric Steering at Delphi Automotive and then Nexteer from 2003 to 2013. Mr. SPICER served as Senior Marketing and Planning Administrator from 1999 to 2003 at Delphi Automotive, and as Staff Project Engineer from 1990 to 1998 at Delphi Automotive. Mr. SPICER began his automotive career with General Motors Corp. in 1982. He served as a Senior Design Engineer from 1990 to 1993, Senior Project Engineer from 1988 to 1990 and Manufacturing Engineer from 1982 to 1988. Mr. SPICER obtained a Bachelor's degree in mechanical engineering from the University of Michigan, the US, in 1982 and a Master's degree in business administration from Carnegie Mellon University, the US, in 1988.

Mr. OWENBY, Douglas E. retired as Vice President and Chief Operating Officer of the North America Division with effect from November 30, 2017.

Mr. LUBISCHER, Frank Peter Josef retired as Senior Vice President, Chief Technology Officer, Global Engineering and Chief Strategy Officer with effect from December 31, 2017.

RELATIONSHIPS BETWEEN DIRECTORS AND SENIOR MANAGEMENT

None of the Directors or members of Senior Management are related to any other Director or member of Senior Management.

Directors' Report

The Directors are pleased to present their report together with the Consolidated Financial Statements.

CORPORATE INFORMATION AND GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on August 21, 2012 as an exempted company with limited liability under the Companies Laws (2016 Revision), of the Cayman Islands (the **Companies Law**). The Company's shares (the **Shares**) were listed on the Hong Kong Stock Exchange on October 7, 2013.

PRINCIPAL ACTIVITIES

The Group develops, manufactures and supplies advanced steering and driveline systems to OEMs throughout the world.

BUSINESS REVIEW

A review of the business of the Group for the year ended December 31, 2017 and a discussion on the Group's future prospects are provided in the Management Discussion and Analysis on pages 27 through 35 and in the Chairman's Statement on pages 25 through 26. An analysis of the Group's performance during the year using financial key performance indicators is provided within the Financial Highlights on pages 23 through 24. In addition, discussions on the Group's key policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Corporate Governance Report on pages 61 through 73 and in this Directors' Report.

KEY RISK AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and department levels. The Group recognises that operational risks cannot be eliminated completely and that it may not always be cost effective to do so.

Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. Functions such as, but not limited to, Internal Audit and Internal Control have the responsibility for providing assurance on the internal control framework. Key operational risk exposures are communicated to senior management as early as possible so that appropriate risk response can be taken.

Financial Risk

In the course of business activities, the Group is exposed to a variety of financial risks, including market, liquidity and credit risks. The currency environment, interest rate cycles and mark to market value of investment securities may pose significant risks to the Group's financial condition, results of operations and businesses. The financial risk management objectives and policies of the Group can be found in note 3 to the Consolidated Financial Statements.

Directors' Report

Business Risks*Cyclical industry and a decline in production levels*

Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on consumer demand. The automotive industry is cyclical and sensitive to general economic conditions, including the global credit markets, interest rates, consumer credit, and consumer spending and preferences. Automotive sales and production can also be affected by the age of the vehicle fleet and related scrappage rates, labour relation issues, fuel prices, regulatory requirements, government initiatives, trade agreements, restructuring actions of our customers and suppliers, increased competition and other factors.

Concentration of sales and terms and conditions of the agreement with GM

The supply agreement, dated November 30, 2010, governs the terms and conditions pursuant to which we have agreed to manufacture and deliver certain products to GM. Our contracts with GM that are governed by the supply agreement are expected to expire between 2018 and 2020. For the years ended December 31, 2016 and 2017, our largest customer, GM, accounted for approximately 42% and 43% of our consolidated revenues, respectively. A significant decrease in business from GM could materially and adversely impact our business, results of operations and financial condition.

Loss of business or lack of commercial success

Purchase orders generally provide for the supply of a customer's annual requirements for a particular vehicle model, and in some cases, for the supply of a customer's requirements for the life of a particular vehicle model, rather than for the purchase of a specific quantity of products. Lack of commercial success could reduce our revenues or margins and thereby adversely affect our financial condition, operating results and cash flows.

Inability to achieve product cost reductions

During negotiations with the customers, customers tend to demand price reduction over the life of a vehicle model. We also bear significant responsibility on the product design, development and manufacturing engineering. Our financial performance is largely dependent on our ability to achieve product cost reductions through product design enhancement and manufacturing efficiencies. If we fail to achieve cost reductions, it would adversely affect our financial condition, operating results and cash flows.

Increase in costs and restrictions on availability of raw materials

The cost of raw materials accounted for approximately 58.2% and 58.6% of our consolidated revenues for the years ended December 31, 2017 and 2016, respectively. Raw material, energy, and commodity costs can be volatile. If the costs of raw materials, energy, commodities, and product components increase or the availability thereof is restricted, it could adversely affect our financial condition, operating results and cash flows.

Substantial international operations

As a result of our global presence, a significant portion of our revenues and expenses are denominated in currencies other than the US dollar. International operations are subject to certain risks inherent in doing business abroad, including exposure to local economic conditions; political, economic, and civil instability and uncertainty; labour unrest; currency exchange rate fluctuations and the ability to hedge currencies and increases in working capital requirements related to long supply chains.

Highly competitive industry and efforts by our competitors to gain market share

We operate in a highly competitive industry, and our competitors are seeking to expand market share with new and existing customers. Our competitors' efforts to grow market share could create downward pressure on our product pricing and margins. If we are unable to differentiate our products or maintain a low-cost footprint, we may lose market share or be forced to reduce prices, thereby lowering our margins. Any such occurrence could adversely affect our financial condition, operating results and cash flows.

Directors' Report

Our existing indebtedness and the inability to access capital markets

As at December 31, 2017, we had approximately US\$491.2 million of outstanding indebtedness, as well as US\$301.0 million available loan credit not yet drawn under our credit facilities. The debt instruments governing our indebtedness contain covenants that may restrict our business activities or our ability to execute our strategic objectives, and our failure to comply with these covenants could result in a default under our indebtedness. Additionally, any downgrade in the ratings that rating agencies assign to us and our debt may ultimately impact our access to capital markets. Our inability to generate sufficient cash flow to satisfy our debt and lease obligations, to refinance our debt obligations or to access capital markets on commercially reasonable terms could adversely affect our financial condition, operating results and cash flows.

Impairment charges relating to our long-lived assets

We regularly monitor our long-lived assets for impairment indicators. Our consolidated balance sheet as at December 31, 2017 reflects a carrying amount of capitalised engineering and product development costs of US\$479.6 million and a carrying amount of property, plant and equipment of US\$884.1 million. In the event that we determine that our long-lived assets are impaired, we may be required to record a significant charge to earnings that could adversely affect our financial condition or operating results.

Our intellectual property portfolio

We own intellectual property, including, patents, trademarks, copyrights and trade secrets. In some cases, we enter into licensing agreements with respect to intellectual property. In addition, we rely on unpatented proprietary technology. These assets play an important role in maintaining our competitive position. We may assert claims against third parties that we believe are infringing on our intellectual property rights. These claims, regardless of their merit or resolution, are typically costly to pursue. Risks related to the protection of our intellectual property could have a material adverse effect on our business, results of operations and financial condition.

Significant product liability lawsuit or warranty claim

In the event that our products fail to perform as expected, whether alleged or due to an actual fault, we may be subject to product liability lawsuits and other claims or we may be required by our customers or regulators to participate in a recall or other corrective action involving such products. We have also entered into agreements with certain customers where these customers may pursue claims against us for all or a portion of the amounts sought in connection with product liability and warranty claims. We carry insurance for certain product liability claims, but such coverage may be limited. These types of claims could adversely affect our financial condition, operating results and cash flows. As at December 31, 2017, our consolidated balance sheet includes provisions totalling US\$86.2 million related to estimated warranty and product liability obligations.

A failure of our information technology (IT) infrastructure could adversely impact our business and operations

We rely on the capacity, reliability and security of our IT systems and infrastructure. IT systems are vulnerable to disruptions, including those resulting from natural disasters, cyber-attacks or failures in third-party-provided services. Disruptions and attacks on our IT systems pose a risk to the security of our systems and our ability to protect our networks and the confidentiality, availability and integrity of our third-party data. As a result, such attacks or disruptions could potentially lead to the inappropriate disclosure of confidential information, including our intellectual property, improper use of our systems and networks, manipulation and destruction of data, production downtimes and both internal and external supply shortages. This could cause significant damage to our reputation, affect our relationships with our customers and suppliers, lead to claims against the Company and ultimately adversely affect our business.

Environmental laws and regulations

Our manufacturing facilities are subject to numerous laws and regulations designed to protect the environment. If we fail to comply with present and future environmental laws and regulations, we could be subject to future liabilities, which could adversely affect our financial condition, operating results and cash flows.

Directors' Report

Our PRC subsidiaries currently enjoy preferential tax treatment

The preferential tax treatment that our PRC subsidiaries currently enjoy may be changed or discontinued, which may adversely affect our business, results of operations and financial condition. Nexteer Automotive (Suzhou) Co., Ltd., Nexteer Lingyun Driveline (Zhuozhou) Co., Ltd. and Nexteer Lingyun Driveline (Wuhu) Co., Ltd. have obtained high-tech certificates, which will expire in 2018, 2019 and 2019, respectively. In order to maintain eligibility for the preferential income tax rate of 15%, the subsidiaries are obligated to meet on-going requirements. We cannot assure that we will maintain this preferential tax rate for future periods. Nexteer Automotive Systems (Liuzhou) Co., Ltd. receives a special "Go West" preferential 15% income tax rate, which ends in 2020.

Strategic Objectives Risk

Our financial performance depends, in part, on our ability to successfully execute our strategic objectives. Our strategy is to deliver superior long-term shareholder value by growing our business through investments and improving our competitive position, while maintaining a strong balance sheet and returning cash to our shareholders. Our failure to execute our strategic objectives could adversely affect our financial condition, operating results and cash flows.

Joint Venture Partners Risk

Some of the businesses of the Group are conducted through non wholly-owned subsidiaries, associates, joint ventures and joint operations in which the Group shares control with the joint venture partners. There is no assurance that any of these joint venture partners will continue their relationships with the Group in the future or their goals or strategies are in line with the Group. Such joint venture partners may have business interests or goals which are different from the Group. They may experience financial and other difficulties or may be unable to fulfill their obligations under the joint ventures which may affect the Group's businesses and operations.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of approximately US\$70.4 million, representing 20% of net profit, or US\$0.028 per Share for the year ended December 31, 2017 subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company (the **AGM**).

The payment shall be made in US dollars, except that payment to Shareholders whose names appear on the register of members in Hong Kong shall be paid in Hong Kong dollars. The relevant exchange rate shall be the opening buying rate of Hong Kong dollars to US dollars as announced by the Hong Kong Association of Banks (www.hkab.org.hk) on the day of the approval of the distribution at the AGM.

DISTRIBUTABLE RESERVES

As at December 31, 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, amounted to approximately US\$609.9 million (as at December 31, 2016: US\$633.8 million).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2017 are set out in note 33 to the Consolidated Financial Statements.

Directors' Report

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Amended and Restated Memorandum and Articles of Association of the Company (the **Articles of Association**) or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

EQUITY-LINKED AGREEMENTS

Details of the share options granted in prior years and current year are set out in note 24 of the Consolidated Financial Statements and 'Share Option Scheme' section contained in this Directors' Report. For the share options granted during the year ended December 31, 2017, no Shares were issued during the year. Except as disclosed above, the Company has not entered into any equity-linked agreements for the year ended December 31, 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) SUMMARY

The Group is committed to conducting our business in an environmentally sound manner and has adopted the Environmental, Social and Governance Reporting Guide as required by The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **Listing Rules**). The Board will continue to monitor such policies to ensure the Company remains compliant with the relevant laws and regulations that have a significant impact on the Company in relation to the environment, employment, labour and operation. In addition to carrying out the corporate-wide programmes the Company has initiated, all of our employees are required to be familiar with environmental laws and regulations relevant to their employment responsibilities and to comply with them. Details of the above information will be set out in our ESG report which is scheduled to be published within 3 months after the issuance of this annual report.

CHARITABLE DONATIONS

During 2017, the charitable contributions and other donations made globally by us amounted to US\$0.3 million.

In 2017, our employees volunteered more than 13,500 hours of time supporting local charitable efforts and creating brand awareness through the Company's philanthropic activities.

DIRECTORS

The Directors in office during the year ended December 31, 2017 and as at the date of this annual report were as follows:

Executive Directors

ZHAO, Guibin (趙桂斌) (*Chairman*)

RICHARDSON, Michael Paul

FAN, Yi (樊毅)

Non-Executive Directors

LU, Daen (錄大恩) (resigned with effect from and upon the conclusion of the Board meeting held on March 14, 2017)

WANG, Xiaobo (王曉波) (resigned with effect from December 31, 2017)

YANG, Shengqun (楊勝群) (appointed with effect from March 14, 2017)

ZHANG, Jianxun (張建勳) (appointed with effect from March 13, 2018)

Independent Non-Executive Directors

TSANG, Hing Lun (曾慶麟) (passed away on June 4, 2017)

LIU, Jianjun (劉健君)

WEI, Kevin Cheng (蔚成)

YICK, Wing Fat Simon (易永發) (appointed with effect from August 15, 2017)

Further details of the Directors are set forth in the section headed 'Directors and Senior Management' in this annual report.

Directors' Report

Pursuant to Article 16.2 of the Articles of Association, any Director appointed by the Board, either to fill a casual vacancy or as an addition to the existing Directors, shall hold office only until the next following AGM of the Company and shall then be eligible for election at that meeting.

Pursuant to Article 16.18 of the Articles of Association, at every AGM one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

Accordingly, five Directors, namely, Executive Director Mr. RICHARDSON, Michael Paul; non-Executive Directors Mr. YANG, Shengqun and Mr. ZHANG, Jianxun and Independent non-Executive Directors Mr. WEI, Kevin Cheng and Mr. YICK, Wing Fat Simon, indicated that they intend to retire at the forthcoming AGM. All of the retiring Directors, being eligible, will offer themselves for re-election at the forthcoming AGM.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Except as disclosed in the section headed 'Directors and Senior Management' in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the publication of the 2017 interim report of the Company.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the Executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as Executive Directors for a term of three years with effect from June 15, 2016, which shall be renewed as determined by the Board or the Shareholders. The appointment of each of the Executive Directors may be terminated by either party by giving at least three months' written notice to the other.

Non-Executive Directors

Each of the non-Executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as a non-Executive Director for a term of three years with effect from March 14, 2017 or March 13, 2018, which shall be renewed as determined by the Board or the Shareholders of the Company. The appointment of each of the non-Executive Directors may be terminated by either party by giving at least three months' written notice to the other.

Independent Non-Executive Directors

Each of the Independent non-Executive Directors has been appointed for a term of three years with effect from June 15, 2016, or August 15, 2017, which shall be renewed as determined by the Board or the Shareholders of the Company. The appointment of each of the Independent non-Executive Directors may be terminated by either party giving at least three months' written notice to the other.

All of the appointments of Directors are subject to the provisions of the Articles of Association with regard to vacating the office of Directors, removal and retirement by rotation of Directors. Except for directors' fees, none of the Independent non-Executive Directors is expected to receive any other remuneration for holding their office as an Independent non-Executive Director.

None of the Directors who are proposed for re-election at the forthcoming AGM has or is proposed to have a service contract that is not terminable by the Company within one year without the payment of compensation (other than statutory compensation).

Directors' Report

DIRECTOR'S INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

There were no transactions, arrangements and significant contracts with any member of the Group as the contracting party and in which the Directors and the Directors' connected party possessed direct or indirect substantial interests, and which was still valid on December 31, 2017 or at any time during such year and related to the business of the Group.

DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

During the year ended December 31, 2017, none of the Directors are considered to have interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PERMITTED INDEMNITY

Article 33 of the Articles of Association provides that every Director shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses, whatsoever which they or any of them may incur as a result of any act or failure to act in carrying out their functions other than such liability (if any) that they may incur by reason of their own actual fraud or willful defaults. The Company has arranged for appropriate insurance coverage in respect of potential legal actions against its Directors and Senior Management.

PRINCIPAL SUBSIDIARIES

The Group's operations are conducted on a global basis through its direct or indirect subsidiaries. Details of the subsidiaries of the Company as at December 31, 2017 are set out in note 35 to the Consolidated Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2017, the percentage of purchases attributable to the Group's major suppliers is as follows:

- the largest supplier: 8%
- five largest suppliers in aggregate: 31%

During the year ended December 31, 2017, the percentage of revenues attributable to the Group's major customers is as follows:

- the largest customer: 43%
- five largest customers in aggregate: 88%

As far as the Company is aware, none of the Directors nor any of his associates and none of the Shareholders possessing over 5% of the interest in the share capital of the Company possessed any interest in the above mentioned suppliers and customers.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on June 5, 2014, the Company adopted a share option scheme (the **Share Option Scheme**).

1. Purpose

The purposes of the Share Option Scheme are: (1) to align the interests of the Company's Directors and senior management with the Company's performance and strategic objectives so as to lay a foundation for the Company's future development and maximise the shareholders' value and (2) to attract, retain and motivate employees in key positions required for attaining the Company's strategic objectives by offering competitive general remuneration in the human resources market.

2. Participants

The Board may, at their discretion, invite any Directors (excluding Independent non-Executive Directors), senior management, as well as other key employees approved by the Board (which means those who are responsible for the decision-making, operation and management of the Company) as the Participants (as defined under the Share Option Scheme).

3. Maximum number of shares subject to Options (as defined under the Share Option Scheme)

- (a) The shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option scheme(s) adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not in aggregate exceed 249,780,400 shares (the **Scheme Mandate Limit**), representing approximately 9.97% of the issued share capital of the Company as at the date of this report.
- (b) The Company may refresh the Scheme Mandate Limit at any time subject to prior approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time. However, the Scheme Mandate Limit as refreshed shall not exceed 10% of the shares in issue as at the date of the aforesaid approval by the shareholders in general meeting. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) (including those outstanding, cancelled or lapsed in accordance with its terms or exercised), shall not be counted for the purpose of calculating the limit as refreshed.
- (c) The Company may also seek separate approval of the Shareholders in a general meeting to grant Options beyond the Scheme Mandate Limit to Participants specifically identified by the Company before the aforesaid shareholders' meeting at which such approval is sought.
- (d) Subject to the requirements of the Listing Rules, the number of securities may be issued upon the exercise of all outstanding Options granted under the Share Option Scheme and any other schemes shall not exceed 30% of the relevant class of securities in issue of the Company (or its related subsidiaries) from time to time.
- (e) Unless approved by the Shareholders in the manner set out in this paragraph, the total number of Shares issued and to be issued upon exercise of the Options granted and to be granted under the Share Option Scheme of the Company to each Participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue (the **Individual Limit**). Any further grant of Options to a Participant which would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to separate approval of the Shareholders in general meeting with such Participant and his associates abstaining from voting.

Directors' Report

- (f) Each grant of Options to any Director, Chief Executive Officer of the Company (**Chief Executive** or **Chief Executive Officer**) or substantial shareholder of the Company (or any of their respective associates) shall be subject to the prior approval of the Independent non-Executive Directors of the Company. Where any grant of Options to a substantial shareholder, or any of its respective associates, would result in the number of shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:
- (i) Representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Hong Kong Stock Exchange) of the shares in issue; and
- (ii) Having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheet issued by the Hong Kong Stock Exchange on the date on which the Board resolves to make an Offer (as defined under the Share Option Scheme) of that Option to the Participant or such other date as designated by the Board (the **Date of Grant**), in excess of HK\$5 million (or such other higher amount as may from time to time be specified by the Hong Kong Stock Exchange), such further grants of Options shall be subject to the prior approval by the shareholders (voting by way of poll) in general meeting. The Company shall send a circular to the shareholders in accordance with the Listing Rules and all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour of the resolution at such general meeting.

4. Acceptance period

A Share Option may be accepted by a Participant within a certain number of days from the date of the offer of the grant of the Option as indicated in the offer.

5. Exercise period

The period within which the Options may be exercised must expire no later than 10 years from the relevant Date of Grant.

6. Minimum holding period

The Option must be held for one year from the Date of Grant before it can be exercised. The vesting period shall be three years and one-third shall be vested at each anniversary from the Date of Grant.

7. Consideration for acceptance

The consideration payable for acceptance of the Option of grant by each Participant is HK\$1.00. If the Participant does not accept such grant of Option pursuant to the procedures specified in the respective grant agreement or notice within the stipulated timeframe, such Option shall be regarded as unaccepted and lapsed.

8. Subscription Price

The Subscription Price (as defined under the Share Option Scheme) shall be such price determined by the Board in its absolute discretion and notified to the Participant in the Offer and shall be no less than the higher of:

- (a) the closing price of a share as stated in the daily quotations sheet issued by the Hong Kong Stock Exchange on the Date of Grant;
- (b) the average closing price of the shares as stated in the daily quotations sheet issued by the Hong Kong Stock Exchange for the five business days immediately preceding the Date of Grant; or
- (c) the nominal value of a share.

9. The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme was adopted and has a remaining term of approximately 6 years as at the date of this report.

Directors' Report

The summary of the Options granted under the Share Option Scheme that were still outstanding as at December 31, 2017 are as follows:

	Grant date	Options held at January 1, 2017	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed during the year	Options held at December 31, 2017	Exercise period ⁽¹⁾	Exercise price per share	Share price on the grant date ⁽²⁾	Share price on the exercise date ⁽³⁾
Director										
ZHAO, Guibin	June 11, 2014	1,667,970	-	-	-	1,667,970	June 11, 2014– June 10, 2024	5.150	5.150	N/A
	June 10, 2015	1,667,970	-	-	-	1,667,970	June 10, 2015– June 9, 2025	8.610	8.480	N/A
	June 10, 2016	1,667,970	-	-	-	1,667,970	June 10, 2016– June 9, 2026	7.584	7.340	N/A
	May 29, 2017	-	1,667,970	-	-	1,667,970	May 29, 2017– May 28, 2027	11.620	11.620	N/A
RICHARDSON, Michael Paul	May 29, 2017	-	2,633,650	-	-	2,633,650	May 29, 2017– May 28, 2027	11.620	11.620	N/A
FAN, Yi	June 11, 2014	526,730	-	-	-	526,730	June 11, 2014– June 10, 2024	5.150	5.150	N/A
	June 10, 2015	526,730	-	-	-	526,730	June 10, 2015– June 9, 2025	8.610	8.480	N/A
	June 10, 2016	526,730	-	-	-	526,730	June 10, 2016– June 9, 2026	7.584	7.340	N/A
	May 29, 2017	-	526,730	-	-	526,730	May 29, 2017– May 28, 2027	11.620	11.620	N/A
LU, Daen ⁽⁴⁾	June 11, 2014	351,150	-	234,100	117,050	-	June 11, 2014– June 10, 2024	5.150	5.150	12.460
	June 10, 2015	351,150	-	117,050	234,100	-	June 10, 2015– June 9, 2025	8.610	8.480	12.440
	June 10, 2016	351,150	-	-	351,150	-	June 10, 2016– June 9, 2026	7.584	7.340	N/A
WANG, Xiaobo ⁽⁴⁾	June 11, 2014	351,150	-	-	351,150	-	June 11, 2014– June 10, 2024	5.150	5.150	N/A
	June 10, 2015	351,150	-	-	351,150	-	June 10, 2015– June 9, 2025	8.610	8.480	N/A
	June 10, 2016	351,150	-	-	351,150	-	June 10, 2016– June 9, 2026	7.584	7.340	N/A
	May 29, 2017	-	351,150	-	351,150	-	May 29, 2017– May 28, 2027	11.620	11.620	N/A
YANG, Shengqun	May 29, 2017	-	351,150	-	-	351,150	May 29, 2017– May 28, 2027	11.620	11.620	N/A
Sub-total		8,691,000	5,530,650	351,150	2,106,900	11,763,600				
All Other Participants (in aggregate)	June 11, 2014	2,097,230	-	1,393,780	175,570	527,880	June 11, 2014– June 10, 2024	5.150	5.150	12.995
	June 10, 2015	2,282,490	-	702,320	702,290	877,880	June 10, 2015– June 9, 2025	8.610	8.480	14.839
	June 10, 2016	4,720,690	-	351,160	1,229,030	3,140,500	June 10, 2016– June 9, 2026	7.584	7.340	15.227
	May 29, 2017	-	6,388,660	-	1,053,460	5,335,200	May 29, 2017– May 28, 2027	11.620	11.620	N/A
Sub-total		9,100,410	6,388,660	2,447,260	3,160,350	9,881,460				
Total		17,791,410	11,919,310	2,798,410	5,267,250	21,645,060				

Notes:

- (1) The Options granted in 2014, 2015, 2016 and 2017 must be held for one year from June 11, 2014, June 10, 2015, June 10, 2016, and May 29, 2017, respectively. The Options are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of one-third at each anniversary of the date of grant of share option.

Directors' Report

- (2) The exercise price for the options granted on June 11, 2014 was the closing price of the shares quoted on the Hong Kong Stock Exchange on the trading day on the date of the grant of the Options. The closing price of the shares of the Company immediately before the date of the grant (i.e. June 10, 2014) was HK\$5.07. The exercise price for the options granted on June 10, 2015 was the average closing price for five consecutive trading days prior to the date of the grant. The closing price of the shares of the Company immediately before the date of the grant (i.e. June 9, 2015) was HK\$8.25. The exercise price for the options granted on June 10, 2016 was the average closing price for five consecutive trading days prior to the date of the grant. The closing price of the shares of the Company immediately before the date of the grant (i.e. June 8, 2016) was HK\$7.15. The exercise price for the options granted on May 29, 2017 was the closing price of the shares quoted on the Hong Kong Stock Exchange on the trading date of the grant of the Options. The closing price of the shares of the Company immediately before the date of the grant (i.e. May 26, 2017) was HK\$11.20.
- (3) Options were exercised during the year ended December 31, 2017.
- (4) For the value of options granted for the year ended December 31, 2017, please refer to note 24 to the Consolidated Financial Statements for details.
- (5) Mr. LU, Daen resigned as our non-Executive Director with effect from and upon the conclusion of the Board meeting held on March 14, 2017.
- (6) Mr. WANG, Xiaobo resigned as our non-Executive Director with effect from December 31, 2017.

PENSION SCHEMES

The Group has both defined contribution and defined benefit plans. Various subsidiaries within the Group operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee administered funds, determined by periodic actuarial calculations.

More detailed information regarding pension schemes is set out in note 17 to the Consolidated Financial Statements.

NON-COMPETITION UNDERTAKING FROM OUR CONTROLLING SHAREHOLDERS

On June 15, 2013, each of AVIC, AVIC Auto, PCM China and Nexteer Hong Kong, (together the **Controlling Shareholders**) provided a non-competition undertaking (the **Non-competition Undertaking**), pursuant to which each of the Controlling Shareholders has unconditionally and irrevocably undertaken that apart from the Retained Business as defined in the prospectus of the Company dated September 24, 2013 (the **Prospectus**) it will not, and will procure its subsidiaries not to, whether directly or indirectly through third parties or the provision of support to such third parties, engage in any automotive steering systems and driveline systems business (the **Core Business**) that competes, or is likely to compete, directly or indirectly with our Group. Details of the Non-competition Undertaking were disclosed in the Prospectus under the section headed 'Relationship with our Controlling Shareholders'.

For the year ended December 31, 2017, the Group has not (1) pursued or declined any new business opportunity referred to us by the Controlling Shareholders nor (2) exercised or waived the pre-emptive rights under the Non-competition Undertaking. Each of the Controlling Shareholders has provided an annual confirmation of its compliance with the Non-competition Undertaking. The Independent non-Executive Directors have reviewed and were satisfied that each of the Controlling Shareholders has complied with the Non-competition Undertaking for the year ended December 31, 2017.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There were no contracts of significance with any member of the Group as the contracting party and in which any of the Controlling Shareholders possessed direct or indirect substantial interests, and which was still valid on December 31, 2017 or any time during such year and related to the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARE AND UNDERLYING SHARES

As at December 31, 2017, the interests or short positions of the Directors or Chief Executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the **SFO**)) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the **Model Code**) are as follows:

Interest in the Company

Name	Capacity	Nature of interest	No. of underlying Shares of the Company held ⁽¹⁾	Approximate Percentage of Total issued Shares ⁽²⁾
ZHAO, Guibin	Director and Chief Executive Officer	Beneficial owner	6,671,880(L)	0.27%
RICHARDSON, Michael Paul	Director	Beneficial owner	2,633,650(L)	0.11%
FAN, Yi	Director	Beneficial owner	2,106,920(L)	0.08%
YANG, Shengqun	Director	Beneficial owner	351,150(L)	0.01%

Notes:

(L) Denotes a long position in Shares.

(1) These represent the interests in underlying Shares in respect of the Options granted by the Company.

(2) The calculation is based on the total number of shares in issue as at December 31, 2017 of 2,504,621,083.

Except as disclosed above, as at December 31, 2017, none of our Directors and Chief Executive of the Company has any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register required to be kept under section 352 of the SFO or (ii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Except as disclosed above, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any of its subsidiaries were granted to any Director or their respective spouse or children under 18 years of age, nor were any such rights exercised by them. Neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate for the year ended December 31, 2017.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at December 31, 2017, the following Shareholders (excluding the Directors and Chief Executive of the Company) had interests or short positions in any Shares and underlying Shares of the Company which will be required to be disclosed under provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity	No. of Shares	Approximate Percentage of Total Issued Shares ⁽¹⁾
Nexteer Automotive (Hong Kong) Holdings Limited (Nexteer Hong Kong) ⁽²⁾	Beneficial Owner	1,680,000,000(L)	67.08%
Pacific Century Motors, Inc. (PCM China) ⁽²⁾	Interest of controlled corporation	1,680,000,000(L)	67.08%
AVIC Automotive Systems Holding Co., Ltd. (AVIC Auto) ⁽³⁾	Interest of controlled corporation	1,680,000,000(L)	67.08%
Aviation Industry Corporation of China, Ltd. (formerly known as Aviation Industry Corporation of China) (AVIC) ⁽³⁾	Interest of controlled corporation	1,680,000,000(L)	67.08%

Notes:

(L) Denotes a long position in Shares.

(1) The calculation is based on the total number of shares in issue as at December 31, 2017 of 2,504,621,083.

(2) Nexteer Hong Kong is wholly-owned by PCM China, which is in turn owned as to 51% by AVIC Auto and as to 49% by Beijing E-Town International Automotive Investment & Management Co., Ltd. (北京亦莊國際汽車投資管理有限公司) (a directly wholly-owned subsidiary of Beijing E-Town International Investment & Development Co. Ltd). Each of PCM China and AVIC Auto is deemed to be interested in the 1,680,000,000 Shares held by Nexteer Hong Kong.

(3) AVIC Auto is owned as to 70.11% by AVIC. AVIC is deemed to be interested in the 1,680,000,000 Shares held by Nexteer Hong Kong.

DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS OF OTHER MEMBERS OF OUR GROUP

So far as our Directors are aware, as at December 31, 2017, the persons other than our Directors and our Chief Executive who were directly interested in 10% or more of the issued and outstanding share capital of our subsidiaries carrying rights to vote in all circumstances at general meetings of each relevant subsidiary, were as follows:

Member of our Group	Person with 10% or more interest (other than the Company)	Capacity	Percentage of the substantial shareholder's interest
Nexteer Lingyun Driveline (Zhuozhou) Co., Ltd.	Lingyun Industrial Corp., Ltd.	Registered owner	40%
Nexteer Lingyun Driveline (Wuhu) Co., Ltd.	Lingyun Industrial Corp., Ltd.	Registered owner	40%
Chongqing Nexteer Steering Systems Co., Ltd.	Chongqing Jianshe Industry (Group) Co., Ltd.	Registered owner	50%
CNXMotion, LLC	Continental Automotive Systems, Inc.	Registered owner	50%
Dongfeng Nexteer Steering Systems (Wuhan) Co., Ltd.	Dongfeng Motor Parts and Components (Group) Co., Ltd.	Registered owner	50%

Except as disclosed above, as at December 31, 2017, our Directors are not aware of any person who, as at December 31, 2017, was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other member of our Group.

CONNECTED TRANSACTIONS

The Group's related parties transactions for the year ended December 31, 2017 set out in note 31(a) to the Consolidated Financial Statements constitute continuing connected transactions (as defined in Chapter 14A of the Listing Rules) as stated below and the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules.

Continuing Connected Transactions which are Exempted from Reporting, Announcement and Independent Shareholders' Approval Requirements of the Listing Rules

Guarantees from AVIC and Beijing E-Town

By way of two loan agreements dated October 29, 2012, PCM (Singapore) Steering Holding Pte. Limited and PCM (US) Steering Holding Inc., both of which were direct wholly-owned subsidiaries of the Company, agreed to borrow US\$126.0 million and US\$300.0 million, respectively, from Export-Import Bank of China (the **EXIM Guaranteed Bank Loans**). The EXIM Guaranteed Bank Loans were intended to repay previous loans and fund certain acquisitions and operations of the Group, which shall be repaid in 14 installments which commenced in June 2014 and shall be fully settled in October 2020. The total amount of guarantees provided by AVIC and Beijing E-Town to our Group amounted to US\$426.0 million. The balance of the EXIM guaranteed bank loans as at December 31, 2017 was US\$182.0 million. AVIC and Beijing E-Town are substantial shareholders of the Company and therefore are connected persons under Rule 14A.07(1) of the Listing Rules.

Such guarantees as well as the associated lower financing costs of the EXIM Guaranteed Bank Loans, being financial assistance provided by AVIC and Beijing E-Town to our Group, were for our benefit on normal commercial terms and no security over our assets was granted. Accordingly, such guarantees of the EXIM Guaranteed Bank Loans, are exempt from all reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

Details of these guarantees were fully disclosed in the Prospectus under the section headed "Connected Transactions".

Directors' Report

Continuing Connected Transactions which are Exempted from the Independent Shareholders' Approval Requirement, but subject to the Reporting, Annual Review and Announcement Requirements of the Listing Rules***Purchase Agreements with Yubei Steering Systems Co., Ltd. (Yubei Steering)***

Reference is made to the Prospectus and the announcement of the Company dated December 29, 2015 (as supplemented by the announcement dated January 5, 2016) and the announcements of the Company dated September 19, 2016, September 23, 2016 and November 28, 2016 (collectively, the **Announcements**), in relation to the continuing connected transactions between the Group and Yubei Steering (**Yubei Transactions**) under the four nomination letters issued by Nexteer Automotive (Suzhou) Co., Ltd. (**Nexteer Suzhou**) and accepted by Yubei Steering on September 20, 2013 (and which were renewed on September 19, 2016) (**Renewed Yubei Nomination Letters**).

Pursuant to the Renewed Yubei Nomination Letters, the Group had agreed to acquire from Yubei Steering certain manual and hydraulic rack and pinion gears (**Spare Parts**) for a further term of three years from September 19, 2016 to September 18, 2019. Nexteer Suzhou and Yubei Steering would enter into supplemental agreements annually during the further term of three years and Nexteer Suzhou would issue purchase orders from time to time. The indicative unit price for each type of Spare Parts to be provided by Yubei Steering is set out in the Renewed Yubei Nomination Letters. Such unit price had been determined based on arms' length negotiations between the parties and with reference to the price offered by independent similar suppliers. During the term of the Renewed Yubei Nomination Letters, quotations will be obtained from independent similar supplier(s) for manual gears of similar quantities and the Company's internal sourcing council will be responsible for assessing and choosing the supplier offering the most competitive terms and conditions.

For the year ended December 31, 2017, the Group had complied with the foregoing pricing policies and guidelines.

The annual caps (the **Annual Caps**) for the Yubei Transactions are as follows:

Period	Revised Annual Caps (RMB)
For the year ended/ending 31 December	
2016	121,537,000
2017	121,679,000
2018	87,780,000
For the nine months ending 30 September	
2019	61,272,000

In arriving at the above Annual Caps, the Directors have considered the following factors:

- (i) Expected growth in the demand for the Group's CEPS systems and hydraulic rack and pinion gears from the OEM customers based on their expected production volume of the relevant vehicles;
- (ii) The indicative prices set out in the Renewed Yubei Nomination Letters; and
- (iii) The estimated market demand for relevant vehicles according to an independent third-party industry forecast provider as reference.

Yubei Steering is indirectly held as to 49.93% by AVIC, one of the Company's Controlling Shareholders. As Yubei Steering is an associate of AVIC, pursuant to Chapter 14A of the Listing Rules, Yubei Steering is regarded as a connected person of the Company and the Yubei Transactions contemplated under the Renewed Yubei Nomination Letters constitute continuing connected transactions of the Group under the Listing Rules.

As the applicable percentage ratios (other than the profit ratio) set out in Rule 14.07 of the Listing Rules in respect of the Revised Annual Caps under the Renewed Yubei Nomination Letters are more than 0.1% but less than 5%, pursuant to Rule 14A.76 of the Listing Rules, the Yubei Transactions are subject to the reporting and announcement requirements, but are exempt from the circular and shareholders' approval requirements. The Yubei Transactions are also subject to the annual review requirements set out in Rule 14A.55 and Rule 14A.56 of the Listing Rules.

Directors' Report

Details of the Yubei Transactions were fully disclosed in the Announcements.

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditor of the Company to perform review procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditor of the Company had provided a letter to the Board confirming that the aforesaid continuing connected transactions:

- (i) Have been approved by the Board;
- (ii) Were entered into in accordance with the pricing policies of the Group;
- (iii) Were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- (iv) Did not exceed the Revised Annual Cap for the year ended December 31, 2017.

A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

- (i) In the ordinary and usual course of the business of the Group;
- (ii) On normal commercial terms; and
- (iii) According to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended December 31, 2017, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed for the year ended December 31, 2017.

PUBLIC FLOAT

The Company has maintained the public float as required by the Listing Rules up to the date of this annual report.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the Shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in or the exercise of any rights in relation to the Shares of the Company, they are advised to consult an expert.

AUDITOR

The Consolidated Financial Statements have been audited by PricewaterhouseCoopers, the Company's external auditor.

Directors' Report

CLOSURE OF REGISTER OF MEMBERS

The Company's AGM will be held on June 4, 2018. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from May 30, 2018 to June 4, 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on May 29, 2018.

The final dividend is payable on June 22, 2018 and the record date for entitlement to the proposed final dividend is June 12, 2018. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from June 8, 2018 to June 12, 2018, both days inclusive, during which no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited (address as per above) for registration no later than 4:30 p.m. on June 7, 2018.

On behalf of the Board

Mr. ZHAO, Guibin

Chairman and Chief Executive Officer

Hong Kong, March 13, 2018

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance. The Company recognises that sound corporate governance practices are fundamental to our effective and transparent operation and to the Group's ability to protect the rights of the Shareholders and enhance Shareholder value.

The Company has adopted its own Internal Control and Corporate Governance Policies, which are based on the principles, provisions and practices set out in the Corporate Governance Code and Corporate Governance Report (the **Hong Kong CG Code**) contained in Appendix 14 to the Listing Rules.

Except as expressly described below, in the opinion of the Directors, the Company has complied with all applicable code provisions set out in the Hong Kong CG Code and all applicable laws and regulations that have a significant impact on the business and operation of the Group throughout the year ended December 31, 2017.

Chairman and Chief Executive Officer

Mr. ZHAO Guibin, our Chairman also acts as the CEO of the Company, which constitutes a deviation from Code Provision A.2.1 of the Hong Kong CG Code. The Board believes that this structure does not impair the balance of power and authority between the Board and the management of the Company or the Group, given that: (i) decisions made by our Board require approval by at least a majority of our Directors and we believe there are sufficient checks and balances in the Board; (ii) Mr. ZHAO and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that each Director, including Mr. ZHAO, acts for the benefit and in the best interests of the Group and will make decisions for our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which is comprised of experienced and high calibre individuals who meet regularly to discuss issues affecting the operations of the Group. Moreover, the overall strategic, financial and operational policies of the Group are made collectively after thorough discussion at both Board and senior management levels. The Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of Chairman and CEO is necessary.

The Chairman is responsible for providing leadership to, and overseeing the functioning of, the Board to ensure that it acts in the best interests of the Group and that Board meetings are planned and conducted effectively. The Chairman is responsible for setting the agenda for each Board meeting, taking into account, where appropriate, matters proposed by Directors and the Joint Company Secretaries.

With the support of the Executive Directors and the Joint Company Secretaries, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and provided with adequate and accurate information in a timely manner. The Chairman promotes a culture of openness and actively encourages Directors to voice their opinion and be fully engaged in the Board's affairs so as to contribute to the Board's effective functioning. The Board, under the leadership of the Chairman, has adopted good corporate governance practices and procedures and has taken appropriate steps to provide effective communication with Shareholders and other stakeholders, as outlined later in the report.

Board Committee Composition

Following the passing away of Mr. TSANG, Hing Lun on June 4, 2017, the Remuneration and Nomination Committee did not have a chairman, which constitutes a deviation from Code Provision A.5.1 of the Hong Kong CG Code as it requires the nomination committee to be chaired by the Chairman of the Board or an Independent non-Executive Director. On August 15, 2017, with the appointment of Mr. YICK, Wing Fat Simon as an Independent non-Executive Director, the Company has once again complied with the requirements of relevant Listing Rules above. Please refer to the section headed "Compliance with Rules 3.10(1), 3.10A, 3.21 and 3.25 of the Listing Rules" below for further information relating to non-compliance with the relevant Listing Rules.

The Company periodically reviews its corporate governance practices with reference to the latest development of the Hong Kong CG Code.

Corporate Governance Report

COMPLIANCE WITH CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the **Model Code**) as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding securities transactions by the Directors of the Company. Having made specific enquiry of all Directors, all Directors have confirmed that they complied with the required standards set out in the Model Code for the year ended December 31, 2017.

The Company has also adopted its own code of conduct regarding employees' securities transactions in terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

The Company maintains and regularly reviews a sensitivity list identifying factors or developments which are likely to give rise to the emergence of inside information or development of a false market for its securities.

The Company ensures that confidentiality agreements are signed by all relevant parties to a transaction that is likely to give rise to the emergence of inside information or development of a false market for its securities. The Company also adopts appropriate measures to maintain the confidentiality of the information, such as using project codes and restricting access to such information to a limited group of recipients on a need-to-know basis.

The Company organises periodic training as it deems necessary for employees who, because of their office or employment, are likely to be in possession of inside information in relation to the Company, to help them understand the Company's policies and procedures as well as their relevant disclosure duties and obligations.

COMPLIANCE WITH RULES 3.10(1), 3.10A, 3.21 AND 3.25 OF THE LISTING RULES

According to Rules 3.10(1) and 3.10A of the Listing Rules, the Board must include at least three Independent non-Executive Directors and the Company must appoint Independent non-Executive Directors representing one-third of the Board, respectively. In addition, Rule 3.21 of the Listing Rules requires, among others, an audit committee to comprise a minimum of three members and Rule 3.25 of the Listing Rules requires the remuneration committee to be chaired by an Independent non-Executive Director.

Following the passing away of Mr. TSANG, Hing Lun on June 4, 2017, the Board comprised only two Independent non-Executive Directors, the Audit and Compliance Committee comprised only two members, and the Remuneration and Nomination Committee did not have a chairman. On August 15, 2017, with the appointment of Mr. YICK, Wing Fat Simon as an Independent non-Executive Director, the chairman of the Remuneration and Nomination Committee and a member of the Audit and Compliance Committee, the Company has once again complied with the requirements of relevant Listing Rules above.

THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Board is responsible for leadership and control of the Company and the Group and for promoting the success of the Group by directing and supervising the Group's affairs. In addition, the Board is responsible for overseeing the corporate governance and financial reporting of the Company and for reviewing the effectiveness of the Group's system of internal control and risk management. To assist it in fulfilling its duties, the Board has established two board committees: the Audit and Compliance Committee and the Remuneration and Nomination Committee.

The Group is managed collectively by our core management team, which is comprised of the Board and senior management of the Group. Members of our senior management are responsible for overseeing their respective divisions and functions and making day-to-day decisions of the Group. They meet regularly to discuss issues of their respective functions and make relevant decisions and report to our Board regularly and when necessary. Our senior management as a whole is also responsible for formulating the overall strategies, annual budget, key business, financial and other operational policies and preparing proposals of any key business, financial and other operational decisions of the Group taking into account inputs from different functions for the Board's approval. The Board will consult with our senior management on such proposals and discuss the same at the Board level with an aim to reach a consensus that is in the best interest of the Group. Once the key policies and decisions are formulated and made, our senior management as a whole will implement the same throughout the Group. Accordingly, the overall strategic and other key business, financial and operational policies and decisions of the Group are made collectively from its inception to implementation after thorough discussion at both Board and senior management levels.

The Board has established clear guidelines with respect to matters that must be approved or recommended by the Board, including, without limitation, approval and adoption of the Group's annual operating budget and capital expenditure budget; the hiring or dismissal of the Chief Executive Officer, Chief Financial Officer (the **CFO**), Joint Company Secretaries or certain other members of the senior management team; and approving and recommending significant transactions. The Group has arranged for appropriate insurance coverage in respect of potential legal actions against its Directors and senior management.

Corporate Governance Report

Composition of the Board, Number of Board Meetings and Directors' Attendance

The Board consists of eight Directors, including three Executive Directors, namely ZHAO, Guibin (Chairman), RICHARDSON, Michael Paul and FAN, Yi, two non-Executive Directors namely LU, Daen (resigned with effect from and upon the conclusion of the Board meeting held on March 14, 2017 and YANG, Shengqun was appointed as our non-Executive Director on the same date) and WANG, Xiaobo (resigned with effect from December 31, 2017 and ZHANG, Jianxun was appointed as our non-Executive Director on March 13, 2018), and three Independent non-Executive Directors, namely LIU, Jianjun, WEI, Kevin Cheng and YICK, Wing Fat Simon. The biographical details of each Director and their respective responsibilities and dates of appointment are included in the section headed 'Directors and Senior Management' of this annual report. None of the Directors or chief executive is related to one another.

The following is the attendance record of the Directors at Board and committee meetings, and the annual general meeting held for the year ended December 31, 2017:

Name of Director	Attendance/number of Meetings in 2017			
	Board	Remuneration and Nomination Committee	Audit and Compliance Committee	Annual General Meeting
ZHAO, Guibin (趙桂斌)	4/4	N/A	N/A	1/1
RICHARDSON, Michael Paul	4/4	N/A	N/A	1/1
FAN, Yi (樊毅)	4/4	N/A	N/A	1/1
LU, Daen (錄大恩) ⁽¹⁾	1/4	N/A	1/3	N/A
WANG, Xiaobo (王曉波) ⁽²⁾	4/4	3/3	N/A	1/1
YANG, Shengqun (楊勝群) ⁽³⁾	3/4	N/A	2/3	1/1
TSANG, Hing Lun (曾慶麟) ⁽⁴⁾	1/4	1/3	1/3	N/A
LIU, Jianjun (劉健君)	4/4	3/3	N/A	1/1
WEI, Kevin Cheng (蔚成)	4/4	N/A	3/3	1/1
YICK, Wing Fat Simon (易永發) ⁽⁵⁾	1/4	1/3	1/3	N/A

Notes:

- (1) Mr. LU, Daen resigned as our non-Executive Director with effect from and upon the conclusion of the Board meeting held on March 14, 2017. The Company held one Board meeting and one Audit and Compliance Committee meeting from January 1, 2017 to the date of his resignation.
- (2) Mr. WANG, Xiaobo resigned as our non-Executive Director with effect from December 31, 2017. The Company held four Board meetings and three Remuneration and Nomination Committee meetings from January 1, 2017 to the date of his resignation.
- (3) Mr. YANG, Shengqun was appointed as our non-Executive Director with effect from March 14, 2017. The Company held three Board meetings and two Audit and Compliance Committee meetings from the date of his appointment to December 31, 2017.
- (4) Mr. TSANG, Hing Lun passed away on June 4, 2017. The Company held one Board meeting, one Remuneration and Nomination Committee meeting and one Audit and Compliance Committee meeting from January 1, 2017 to the date of his passing.
- (5) Mr. YICK, Wing Fat Simon was appointed as our Independent non-Executive Director with effect from August 15, 2017. The Company held one Board meeting, one Remuneration and Nomination Committee meeting and one Audit and Compliance Committee meeting from the date of his appointment to December 31, 2017.

PRACTICES AND CONDUCT OF MEETINGS

Notice of regular Board meetings is given to all Directors at least 14 days in advance, and reasonable notice is generally given for other Board meetings. Annual meeting schedules and the draft agenda of each meeting are normally made available to Directors in advance. Arrangements are in place to allow Directors to include items in the agenda, and final agendas together with relevant supporting documents are sent to Directors at least 3 days before each regular Board meeting, and as soon as practicable before other Board meetings, so that the Board can make informed decisions on matters placed before it. Each Director also has separate and independent access to the senior management where necessary. Minutes of the Board meetings are kept by the Joint Company Secretary. Draft minutes are circulated to Directors for comment within a reasonable time after each meeting.

If a Director or any of his associates has a material interest in a transaction, that Director is required to abstain from voting and not to be counted in the quorum at the meeting for approving the transaction.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended December 31, 2017, except for the period previously mentioned in the section headed 'Compliance with Rules 3.10(1), 3.10A, 3.21 and 3.25 of the Listing Rules', the Board met the requirements of the Listing Rules relating to the appointment of at least three Independent non-Executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written confirmation from each of the Independent non-Executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent non-Executive Directors to be independent.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company uses a formal and transparent procedure for the appointment, election and removal of Directors, which is set out in the Company's Articles of Association and is led by the Remuneration and Nomination Committee, which will make recommendations on appointment of new Directors to the Board for approval.

Further details relating to the appointment, election and removal of Directors and the service contracts of Directors are set out in the sections headed 'Directors' and 'Service Contracts of Directors' in the Directors' Report included in this annual report.

Corporate Governance Report

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each newly appointed Director receives a comprehensive introduction to the Company in order to ensure his understanding of the business and operations of the Group and awareness of a director's responsibilities and obligations. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge by attending internal training and external seminars. For the year ended December 31, 2017, the Company arranged in-house training for all Directors relating to ongoing compliance obligations, corporate governance and other related topics. In compliance with Rule 3.29 of the Listing Rules, Mr. FAN, Yi, our Executive Director and Joint Company Secretary, has undertaken not less than 15 hours of relevant professional training during the year ended December 31, 2017.

During the year ended December 31, 2017, the Directors participated in the following training:

Directors	Types of training
Executive Directors	
ZHAO, Guibin (<i>Chairman</i>)	A,B,C,D
RICHARDSON, Michael Paul	A,B,C,D
FAN, Yi	A,C,D
Non-Executive Directors	
LU, Daen (resigned with effect from and upon the conclusion of the Board meeting held on March 14, 2017)	A,B,C,D
WANG, Xiaobo (resigned with effect from December 31, 2017)	A,B,D
YANG, Shengqun (appointed with effect from March 14, 2017)	A,B,C,D
Independent Non-Executive Directors	
TSANG, Hing Lun (passed away on June 4, 2017)	A,B,C,D
LIU, Jianjun	A,C,D
WEI, Kevin Cheng	A,C,D
YICK, Wing Fat Simon (appointed with effect from August 15, 2017)	A,C,D
A: attending seminars and/or conferences and/or forums	
B: giving talks at seminars and/or conferences and/or forums	
C: attending in-house training relating to the ongoing compliance obligations, corporate governance and other related topics	
D: reading newspapers, journals, Company's newsletters and updates relating to the economy, general business, automotive component manufacturing industry or Directors' duties and responsibilities, etc.	

COMMITTEES

The Board has established the Audit and Compliance Committee, and the Remuneration and Nomination Committee for overseeing particular aspects of the Group's affairs. All Board committees are established with defined written terms of reference which are posted on the Company's website, the Hong Kong Stock Exchange's website and are available to Shareholders upon request. Meetings of the Board committees generally follow the same procedures as meetings of the Board.

Corporate Governance Report

THE AUDIT AND COMPLIANCE COMMITTEE

The Board established the Audit and Compliance Committee on June 15, 2013 and had provided clear written terms of reference as required by Code Provisions in D.2. The terms of reference (as revised on November 13, 2015) are in compliance with Rule 3.21 of the Listing Rules and Code Provisions in sections C.3 and D.3 of the Hong Kong CG Code. The Audit and Compliance Committee consists of Mr. WEI, Kevin Cheng, Mr. TSANG, Hing Lun (passed away on June 4, 2017), Mr. LU, Daen (resigned with effect from and upon the conclusion of the Board meeting held on March 14, 2017), Mr. YANG, Shengqun (appointed with effect from March 14, 2017) and Mr. YICK, Wing Fat Simon (appointed with effect from August 15, 2017). All members of the Audit and Compliance Committee are non-Executive Directors, among whom Mr. WEI, Kevin Cheng and Mr. YICK, Wing Fat Simon are Independent non-Executive Directors. The chairman of the Audit and Compliance Committee is Mr. WEI, Kevin Cheng who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit and Compliance Committee include, without limitation, assisting our Board by providing an independent view of the effectiveness of the financial reporting process, risk management and internal control system of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

The Board recognises that corporate governance should be the collective responsibility of the Directors and delegates the corporate governance duties to the Audit and Compliance Committee which include:

- reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors;
- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board and report to the Board on matters;
- reviewing the Company's compliance with the Hong Kong CG Code and disclosure in the Corporate Governance Report; and
- considering any other topics, as determined by the Board.

There were three meetings of the Audit and Compliance Committee held for the year ended December 31, 2017, the attendance record of the committee members is set out above. The following is a summary of the major work performed by the Audit and Compliance Committee during 2017:

- reviewed the reports and findings from management including Internal Audit on the implementation and refinement of the risk management and internal control measures;
- reviewed the three-year Internal Audit plan;
- confirmed the independence and objectivity of the Company's external auditor, PricewaterhouseCoopers;
- met with the external auditor and reviewed their 2017 audit plan;
- reviewed the annual results and the adequacy of the risk management and internal control system for the year ended December 31, 2017; and
- reviewed the interim results for the six months ended June 30, 2017.

Subsequent to December 31, 2017 and up to the date of this annual report, a meeting of the Audit and Compliance Committee was held on March 13, 2018 to review the annual results and the adequacy of the risk management and internal control system for the year ended December 31, 2017.

Corporate Governance Report

THE REMUNERATION AND NOMINATION COMMITTEE

The Board established the Remuneration and Nomination Committee on June 15, 2013 and had provided clear written terms of reference as required by Code Provisions in D.2. The terms of reference (as revised on August 15, 2017) are in compliance with Code Provisions in sections A.5 and B.1 of the Hong Kong CG Code. These terms of reference include appropriate professional knowledge and industry experience, personal ethics, integrity and personal skill as well as time commitments of members. The Remuneration and Nomination Committee consists of Mr. TSANG, Hing Lun (passed away on June 4, 2017), Mr. LIU, Jianjun, Mr. WANG, Xiaobo (resigned with effect from December 31, 2017), Mr. YICK, Wing Fat Simon (appointed with effect from August 15, 2017) and Mr. ZHANG, Jianxun (appointed with effect from March 13, 2018). All members of the Remuneration and Nomination Committee are non-Executive Directors, among whom Mr. TSANG, Hing Lun, Mr. YICK, Wing Fat Simon and Mr. LIU, Jianjun are Independent non-Executive Directors. The chairman of the Remuneration and Nomination Committee is Mr. YICK, Wing Fat Simon. The primary functions of the Remuneration and Nomination Committee include, without limitation, (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) making recommendations on the remuneration packages of Executive and non-Executive Directors and senior management; (iii) reviewing and approving senior management's remuneration proposals reference to corporate goals and objectives resolved by the Board from time to time; (iv) reviewing the structure, size, composition and diversity of the Board; (v) assessing the independence of Independent non-Executive Directors; and (vi) making recommendations to the Board on matters relating to the appointment of Directors.

The remuneration of Directors and senior executives is determined with reference to their expertise and experience in the industry, the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and prevailing market conditions. Directors and employees also participate in bonus arrangements which are determined in accordance with the performance of the Group and the individual's performance. No Director or any of his associates takes part in any discussion about his own remuneration.

There were three meetings of the Remuneration and Nomination Committee held for the year ended December 31, 2017, the attendance record of the committee members is set out above. The following is a summary of the major work performed by the Remuneration and Nomination Committee during 2017:

- reviewed and made a recommendation to the Board regarding the fees of the non-Executive Directors;
- reviewed and made a recommendation to the Board regarding the fees of the Independent non-Executive Directors;
- reviewed the Board structure, size, composition and board diversity (including ability, knowledge and experience etc.);
- confirmed the independence of Independent non-Executive Directors; and
- considered the retirement and re-nomination of Directors for re-election at the AGM.

Corporate Governance Report

BOARD DIVERSITY POLICY

The Company views diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. To that end, the Company has adopted a Board diversity policy to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Ultimately, all Board appointments have been based on merit, and candidates were considered against objective criteria, having due regard for the benefits of diversity on the Board.

AUDITOR'S REMUNERATION

The Company's external auditor is PricewaterhouseCoopers. A breakdown analysis of the remuneration paid to PricewaterhouseCoopers for the year ended December 31, 2017 is set out below. The Audit and Compliance Committee has confirmed the independence and objectivity of the external auditor.

Service Category	Fees Paid US\$'000
Audit Services	2,292
Non-audit Services	1,278
Total	3,570

Non-audit services include allowable strategic consulting, tax consulting and compliance services.

JOINT COMPANY SECRETARIES

Ms. MOK, Ming Wai, a director of TMF Hong Kong Limited, an external service provider, has been engaged by the Company as its Joint Company Secretary and authorised representative. The primary contact person of the Company is Mr. FAN, Yi, the Joint Company Secretary, the authorised representative and an Executive Director of the Company.

During 2017, each of the Joint Company Secretaries undertook no less than 15 hours of professional training to update their respective skills and knowledge.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. Except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be posted on the websites of the Company and of the Hong Kong Stock Exchange after each general meeting. There are no provisions under the laws of the Cayman Islands or the Memorandum and Articles of Association that allows Shareholders to make proposals or move resolutions at an annual general meeting. Shareholders of the Company who wish to make proposals or move a resolution may, however, request the Board to convene an extraordinary general meeting by following the procedures below.

Corporate Governance Report

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Extraordinary general meetings may be convened on the written request of any two or more Shareholders of the Company deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal place of business, the registered office specifying the objects of the meeting and signed by the requestors, provided that such requestors held as at the date of deposit of the request not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

Extraordinary general meetings may also be convened on the written request of any one Shareholder of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal place of business, the registered office specifying the objects of the meeting and signed by the requestor, provided that such requestor held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the request proceed duly to convene the extraordinary general meeting to be held within a further 21 days, the requestor(s) themselves, or any of them representing more than one-half of the total voting rights of all of them, may convene the extraordinary general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the request, and all reasonable expenses incurred by the requestor(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

SHAREHOLDERS' ENQUIRIES

Enquiries about corporate governance or other related matters (including enquiries to be put to the Board) should be directed to the Joint Company Secretary by email at company.secretary@nexteer.com or at the Company's headquarters address: 1272 Doris Road, Auburn Hills, Michigan 48326, USA.

Shareholders should direct their enquiries about their shareholdings to the Company's share registrar as follows:

By Mail: 17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Hong Kong Customer Service Phone: +852 2862 8555

Email: hkinfo@computershare.com.hk

Corporate Governance Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Group has established a formal and transparent procedure for formulating policies on remuneration of Directors and Senior Management of the Group. Details of the remuneration of each of the Directors for the year ended December 31, 2017 are set out in note 24 to the Consolidated Financial Statements. The remuneration of Directors is determined by the Board, which receives recommendations from the Remuneration and Nomination Committee after considering the experience, knowledge and performance of the Directors. Under the Company's current compensation arrangements, the Executive Directors and Senior Management receive cash compensation in the form of salaries as well as bonuses that are subject to performance targets.

Remuneration paid to the Senior Management (including three Executive Directors) for the year ended December 31, 2017 is within the following bands:

Band of remuneration in US\$	No. of person
US\$250,001 – US\$500,000	3
US\$500,001 – US\$750,000	6
US\$750,001 – US\$1,000,000	3
US\$1,250,001 – US\$1,500,000	2
US\$1,500,001 – US\$1,750,000	1

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company has implemented a series of reports intended to allow the Board to assess the Group's financial and operational performance, as well as business results. On a monthly basis, management of the Group provides the Board with sufficient and adequate information to support its decision-making and oversight responsibilities.

The Board understands and acknowledges its responsibility for overseeing the preparation of the financial information in accordance with IFRS and for the internal control system necessary to enable the preparation of financial information that is free from material misstatement. This responsibility extends to annual and interim reports, other announcements and other financial disclosures required under the Listing Rules and/or statutory requirements. As at the date of this annual report, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's or the Group's ability to continue as a going concern.

The Company's external auditor is responsible for expressing an opinion on whether the Consolidated Financial Statements give a true and fair view of the state of affairs of the Group as at December 31, 2017, and of the Group's profit and cash flows for the year then ended in accordance with IFRS.

The auditor's statement about their reporting responsibilities on the Consolidated Financial Statements is set out in the section headed 'Independent Auditor's Report' of this annual report.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROL

The Company has adopted a risk management and internal control system and associated procedures and conducts reviews of the effectiveness of the risk management and internal control system of the Group from time to time.

The responsibility for safeguarding the assets, for the prevention and detection of fraud and error, and for ensuring compliance with all applicable laws and regulations rests with the Board, the Audit and Compliance Committee and management of the Group. This responsibility includes implementing and ensuring the continued operation of the Group's risk management and internal control system which is designed to prevent and detect fraud and error.

The Board is responsible for maintaining an adequate system of risk management and internal control and for reviewing its effectiveness. Oversight over risk management and internal control is led by the Audit and Compliance Committee. While senior management is responsible for the implementation of such system of risk management and internal control, the Group has established an Internal Audit department to assist the Board and the Audit and Compliance Committee in their oversight and review responsibilities to monitor the compliance and effectiveness of the risk management and internal control measures. This will enable the Board and the Audit and Compliance Committee to conduct necessary reviews and to report to Shareholders, at least on an annual basis, on the effectiveness of the Group's system of risk management and internal control. The risk management and internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and only provide reasonable and not absolute assurance against material misstatement or loss.

The head of the Internal Audit department has direct access to the Board through direct communication to the Chairman of the Audit and Compliance Committee. The head of the Internal Audit department has the right to consult the Audit and Compliance Committee without reference to management. With this independence, the Internal Audit department is able to perform key tasks, such as: (a) assessing and monitoring compliance with policies and the effectiveness of risk management and internal control measures with unrestricted direct access to any level of management whenever deemed necessary; and (b) conducting comprehensive internal audits to evaluate the system of financial, operation and compliance controls on a regular basis.

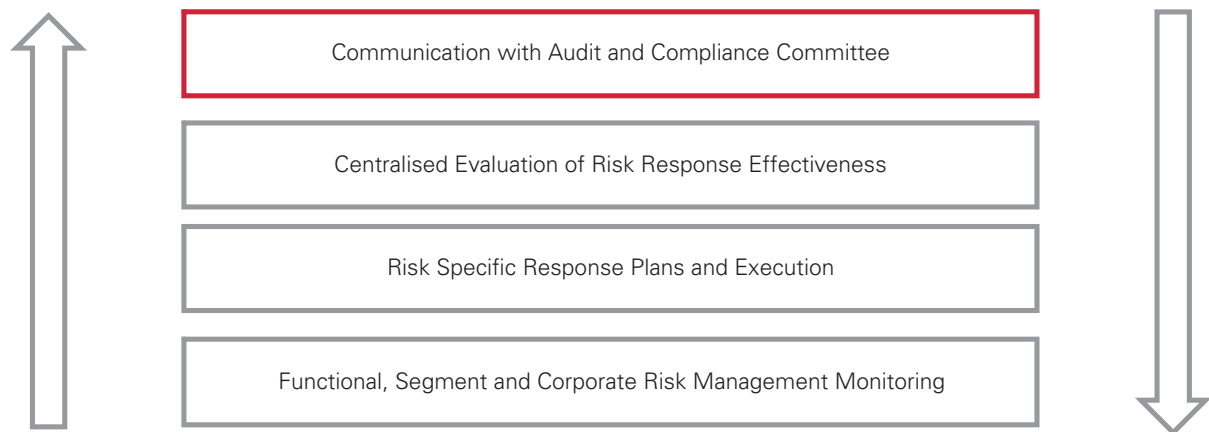
The Internal Audit department has completed a risk assessment process and developed a three year internal audit plan that focuses on the key risks to the Company. The Company reviewed the risk assessment and three-year internal audit plans with the Audit and Compliance Committee in 2017. The Internal Audit department executed the approved internal audit plan and conducted a review of the effectiveness of the system of risk management and internal control including but not limited to the audit of the internal controls over financial reporting for key high risk frameworks of the Company. The Internal Audit department reported a summary of audit findings and recommendations to the Audit and Compliance Committee. Management is responsible for ensuring that identified control weaknesses are rectified within a reasonable period.

Management and the CFO, in conjunction with the Board and the Audit and Compliance Committee, continue to evaluate the adequacy of resources, qualifications and experience of staff in the Group's accounting and financial reporting and internal audit functions, as well as that function's training programmes and budget. This exercise continues to result in the hiring of accounting and finance professionals to help ensure that the Group maintains adequate and sufficient staffing levels required for a public company. The Board has delegated to the Audit and Compliance Committee the responsibility for reviewing the Group's system of risk management and internal control and reporting the findings to the Board. The Audit and Compliance Committee conducted a review of (1) the findings and recommendations of the internal audit function; (2) the implementation status of recommended internal control recommendations; and (3) the reports and findings from management on the implementation of the internal control measures. Based on its annual review, the Board and the Audit and Compliance Committee are not aware of any material deficiencies in the effectiveness of risk management and internal control for the year ended December 31, 2017 and consider them effective and adequate.

Corporate Governance Report

Management identifies, evaluates and manages significant risks to the Group. Management annually self-assesses the effectiveness of the risk management and internal control activities. The Group's risk management and internal control policies and procedures are designed and updated (as necessary) in consideration of jurisdictional regulations, customer requirements and industry practice. The Group has successfully redesigned its Business System in order to meet the requirements of the International Automotive Task Force (IATF) 19649:2016 and its current business practices.

The risk management process facilitates the following sequence of activities and communication:



Risk management is a continuous process, occurring within functional departments, geographic segments and corporate oversight bodies. Management regularly assesses the nature, extent and magnitude of the identified risks and corresponding risk response plans. Management periodically evaluates the comparative significance of risk occurrence and consequences when considering risk response plans and associated plan effectiveness.

CHANGE IN CONSTITUTIONAL DOCUMENTS

There was no change in the Articles of Association of the Company for the year ended December 31, 2017.

Independent Auditor's Report



羅兵咸永道

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NEXTEER AUTOMOTIVE GROUP LIMITED *(incorporated in the Cayman Islands with limited liability)*

OPINION

What we have audited

The consolidated financial statements of Nexteer Automotive Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 80 to 147, which comprise:

- the consolidated balance sheet as at December 31, 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Capitalised Product Development Costs
- Provision for Warranties

How our audit addressed the Key Audit Matter**Capitalised Product Development Costs**

Refer to notes 2.8 and 8 of the consolidated financial statements.

The Group incurs significant costs and efforts on research and development activities, which include costs to develop customer-specific applications, prototypes and testing. As disclosed in note 8 of the consolidated financial statements, US\$479.6 million of development costs have been capitalised within intangible assets as at December 31, 2017.

Our audit was focused on this area given the significance of the development costs capitalised as at December 31, 2017, as well as the complexity of the process used by management to account for these costs. Management needs to employ significant judgement as part of this process including assessing whether costs are appropriately identified for capitalisation and that such costs are appropriately associated with programs in the development phase of production in accordance with the capitalisation criteria as set out in note 2.8 to the consolidated financial statements. The key inputs utilised by management to calculate the development costs to be capitalised include labour hours and labour rates applied, as well as material costs.

We obtained an analysis prepared by management of all individual development projects costs capitalised in the period and agreed this analysis to the amounts recorded in the general ledger. We considered the product development cost components included in the analysis for capitalisation and assessed the determination for capitalisation of such costs by comparing the nature of the expenses capitalised by management to the capitalisation criteria as set out in note 2.8 to the consolidated financial statements.

We also tested a sample of projects as follows:

- We met with finance management, inquired of engineers, and reviewed program documentation to determine whether the programs had entered the development phase of the projects and whether the associated costs were thus eligible for capitalisation. We conducted interviews with individual project managers responsible for the projects selected to corroborate management's explanations and to obtain an understanding of the development phase of the specific projects. We also inspected agreements between the Group and their customers to support existence of the development programs. These procedures enabled us to assess whether the projects would allow for the underlying expenditure to meet the criteria for capitalisation as set out in note 2.8 to the consolidated financial statements.

Independent Auditor's Report

How our audit addressed the Key Audit Matter

- To determine whether costs were directly attributable to projects, we obtained detailed listings of hours worked on individual projects and selected a sample of the employees' hours recorded. We obtained timesheets signed by the appropriate project managers to check that the employees selected for testing were involved on the projects and to evaluate the nature of the work they had been performing. We also recalculated the amount of costs capitalised for the projects selected, by applying a labour rate per employee to the timesheet hours.
- We also compared the labour rates, referred to above, that had been applied to the hours identified as appropriate for capitalisation to the appropriate hourly rate from the Group's payroll system.
- To test whether material costs were directly attributable to projects and capitalisable, we tested a sample of capitalised material costs to assess whether the programs to which they were being applied were in the development phase. We then agreed the sample selected to underlying supplier invoices to assess that the sample was capitalised for the correct amount and was a capitalisable cost.

Based on the above, we believe that the judgments applied by management in determining development costs to be capitalised were reasonable and consistent with the audit evidence we obtained.

Provision for Warranties

Refer to notes 4(c)(iii) and 18 of the consolidated financial statements.

The Group recognises expected warranty costs for products sold principally at the time of sale of the product or when it is determined that such obligations are probable and can be reasonably estimated. As disclosed in note 18 to the consolidated financial statements, the ending warranties provision balance is US\$86.2 million as at December 31, 2017. Management estimates the amount that will eventually be required to settle such obligations and those estimates are based on a variety of factors.

We obtained an analysis prepared by management of the individual warranty provisions at the beginning and ending of the year and the movement in such provisions. We then agreed this analysis to the amounts recorded in the general ledger and tested significant reconciling items to supporting documentation.

We tested a sample by performing the following:

- We recalculated the mathematical accuracy of the provision calculation (product volume multiplied by the estimated repair cost per unit).
- We traced the volume data to the related sales records for each product selected for testing, also determining whether the provision for the selected product was recorded in the appropriate period.

Independent Auditor's Report

How our audit addressed the Key Audit Matter

We focused on this area given the significance of the provision and the longer period of time between when the initial estimates are recorded and warranty obligations are settled. These estimates require ongoing monitoring to determine the continued appropriateness of the recorded provision. The key judgments used by management in determining the warranty provision include the estimated per unit repair cost. Key inputs used in deriving this estimate include the customer's overall cost to repair each product, the estimated percentage of products that will be subject to defect and the agreed upon cost sharing arrangement between the Group and the customers.

- We agreed estimated customer product repair cost, the estimated percentage of defective parts and the nature of the cost sharing arrangement to third party customer data and supply arrangements to evaluate whether the cost- per-unit estimates appropriately reflected the Group's obligations with respect to the repair or replacement of such products.

For a sample of warranty provisions previously recorded and settled during the year, we inspected the customer approved settlement agreements and checked the related payments made during the year, as applicable, to the relevant credit memo or cash payment to evaluate the reasonableness of the Group's historical estimates of repair cost per unit.

Furthermore, we selected a sample of products from the sales listings to determine whether the products sold were appropriately included or excluded from the warranty based upon the customer's contractual warranty terms. We also reviewed regulatory filings for those involving the Group to determine whether or not there was a potential warranty provision which had not been recorded.

We also met with finance management and individuals within the Group responsible for monitoring product defects to identify the existence of any indicators subsequent to the year-end which could lead to adjustment of the provision for warranties at the year-end date.

Based on the above, we believe that judgments applied by management in determining the provision for warranties were reasonable and consistent with the audit evidence we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS AND AUDIT AND COMPLIANCE COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit and Compliance Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

We communicate with the Audit and Compliance Committee 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.

We also provide the Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Peter Man Kam Tsang.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, March 13, 2018

Consolidated Balance Sheet

As at December 31, 2017

		As at December 31,	
	Notes	2017 US\$'000	2016 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	884,118	779,134
Land use rights	7	1,500	568
Intangible assets	8	494,530	449,708
Deferred income tax assets	9	7,042	9,948
Other receivables and prepayments	12	19,951	15,869
Investments in joint ventures	31(b)	11,021	10,586
		1,418,162	1,265,813
Current assets			
Inventories	10	241,257	261,749
Trade receivables	11	610,799	589,642
Other receivables and prepayments	12	101,786	90,962
Restricted bank deposits	13	6,591	727
Cash and cash equivalents	14	600,788	484,475
		1,561,221	1,427,555
Total assets		2,979,383	2,693,368

The notes on pages 86 to 147 are an integral part of these Consolidated Financial Statements.

Consolidated Balance Sheet (Continued)

		As at December 31,	
	Notes	2017 US\$'000	2016 US\$'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	33	32,310	32,274
Other reserves	15	184,024	192,221
Retained earnings		1,186,077	834,496
		1,402,411	1,058,991
Non-controlling interests		38,304	32,032
Total equity		1,440,715	1,091,023
LIABILITIES			
Non-current liabilities			
Borrowings	16	414,145	488,659
Retirement benefits and compensations	17	17,171	18,160
Deferred income tax liabilities	9	67,612	56,704
Provisions	18	84,515	76,480
Deferred revenue	19	82,082	92,855
Other payables and accruals	21	4,727	9,161
		670,252	742,019
Current liabilities			
Trade payables	20	582,350	604,498
Other payables and accruals	21	138,367	107,362
Current income tax liabilities		14,603	15,349
Retirement benefits and compensations	17	3,103	3,427
Provisions	18	23,138	29,295
Deferred revenue	19	29,819	24,907
Borrowings	16	77,036	75,488
		868,416	860,326
Total liabilities		1,538,668	1,602,345
Total equity and liabilities		2,979,383	2,693,368

The notes on pages 86 to 147 are an integral part of these Consolidated Financial Statements.

The Consolidated Financial Statements on page 80 to 147 were approved by the Board of Directors on March 13, 2018 and were signed on its behalf.

Director

Director

Consolidated Income Statement

For the year ended December 31, 2017

	Notes	For the year ended December 31,	
		2017 US\$'000	2016 US\$'000
Revenue	5	3,878,009	3,842,244
Cost of sales	23	(3,203,734)	(3,180,579)
Gross profit		674,275	661,665
Engineering and product development costs	23	(124,027)	(123,280)
Selling and distribution expenses	23	(15,648)	(15,458)
Administrative expenses	23	(110,590)	(114,470)
Other gains, net	22	4,205	7,033
Operating profit		428,215	415,490
Finance income	25	3,866	1,407
Finance costs	25	(25,214)	(31,575)
Finance costs, net		(21,348)	(30,168)
Share of (loss) income of joint ventures	31(b)	(1,818)	684
Profit before income tax		405,049	386,006
Income tax expense	26	(49,171)	(84,141)
Profit for the year		355,878	301,865
Profit attributable to:			
Equity holders of the Company		351,769	294,723
Non-controlling interests		4,109	7,142
		355,878	301,865
Earnings per share for profit attributable to equity holders of the Company for the year (expressed in US\$ per share)			
– Basic and diluted	27	US\$0.14	US\$0.12

The notes on pages 86 to 147 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Profit for the year	355,878	301,865
Other comprehensive income (loss)		
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial (losses) gains on defined benefit plans, net of tax	(188)	157
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences, net of tax	47,730	(31,540)
Cash flow hedge, net of tax	–	890
	47,542	(30,493)
Total comprehensive income for the year	403,420	271,372
Total comprehensive income for the year attributable to:		
Equity holders of the Company	397,148	266,283
Non-controlling interests	6,272	5,089
	403,420	271,372

The notes on pages 86 to 147 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

	Attributable to equity holders of the Company							Non-controlling interests US\$'000	Total US\$'000
	Share capital US\$'000	Share premium US\$'000 (note 15)	Merger reserve US\$'000 (note 15)	Share-based compensation reserve US\$'000	Exchange reserve US\$'000 (note 15)	Hedging reserve US\$'000	Retained earnings US\$'000	Sub-total US\$'000	
As at January 1, 2016	32,231	199,080	113,000	3,736	(59,351)	(890)	539,616	827,422	854,365
Comprehensive income									
Profit for the year	-	-	-	-	-	-	294,723	294,723	301,865
Other comprehensive (loss) income									
Exchange differences, net of tax	-	-	-	-	(29,487)	-	-	(29,487)	(31,540)
Actuarial gains on defined benefit plans, net of tax	-	-	-	-	-	-	157	157	157
Cash flow hedge, net of tax	-	-	-	-	-	890	-	890	890
Total other comprehensive (loss) income	-	-	-	-	(29,487)	890	157	(28,440)	(30,493)
Total comprehensive (loss) income	-	-	-	-	(29,487)	890	294,880	266,283	271,372
Transactions with owners									
Value of employee services provided under share option scheme (note 24(a))	-	-	-	2,456	-	-	-	2,456	2,456
Transfer to share premium under exercise of share options	-	1,330	-	(1,330)	-	-	-	-	-
Proceeds from exercise of share options	43	2,700	-	-	-	-	-	2,743	2,743
Dividends paid to shareholders	-	(39,913)	-	-	-	-	-	(39,913)	(39,913)
Total transactions with owners	43	(35,883)	-	1,126	-	-	-	(34,714)	(34,714)
As at December 31, 2016	32,274	163,197	113,000	4,862	(88,838)	-	834,496	1,058,991	1,091,023
Comprehensive income									
Profit for the year	-	-	-	-	-	-	351,769	351,769	355,878
Other comprehensive income (loss)									
Exchange differences, net of tax	-	-	-	-	45,567	-	-	45,567	47,730
Actuarial losses on defined benefit plans, net of tax	-	-	-	-	-	-	(188)	(188)	(188)
Total other comprehensive income	-	-	-	-	45,567	-	(188)	45,379	47,542
Total comprehensive income	-	-	-	-	45,567	-	351,581	397,148	403,420
Transactions with owners									
Value of employee services provided under share option scheme (note 24(a))	-	-	-	3,806	-	-	-	3,806	3,806
Transfer to share premium under exercise of share options	-	1,120	-	(1,120)	-	-	-	-	-
Proceeds from exercise of share options	36	2,286	-	-	-	-	-	2,322	2,322
Dividends paid to shareholders	-	(59,856)	-	-	-	-	-	(59,856)	(59,856)
Total transactions with owners	36	(56,450)	-	2,686	-	-	-	(53,728)	(53,728)
As at December 31, 2017	32,310	106,747	113,000	7,548	(43,271)	-	1,186,077	1,402,411	1,440,715

The notes on pages 86 to 147 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

		For the year ended December 31,	
	Note	2017 US\$'000	2016 US\$'000
Operating activities			
Cash generated from operations	29(a)	658,167	577,756
Income tax paid		(33,397)	(68,364)
Net cash generated from operating activities		624,770	509,392
Investing activities			
Purchase of property, plant and equipment		(236,389)	(166,714)
Addition of intangible assets and land use rights		(115,089)	(118,004)
Proceeds from sale of property, plant and equipment		2,051	1,964
Changes in restricted bank deposits		(5,742)	(615)
Investment in joint ventures		(2,249)	—
Net cash used in investing activities		(357,418)	(283,369)
Financing activities			
Proceeds from borrowings	29(b)	2,477	3,932
Repayments of borrowings	29(b)	(78,921)	(84,384)
Finance costs paid		(34,865)	(37,678)
Dividends paid to equity holders of the Company		(59,856)	(39,913)
Proceeds from exercise of share options		2,322	2,743
Net cash used in financing activities		(168,843)	(155,300)
Net increase in cash and cash equivalents		98,509	70,723
Cash and cash equivalents at beginning of year		484,475	416,900
Effect of exchange rate changes on cash and cash equivalents		17,804	(3,148)
Cash and cash equivalents at end of period		600,788	484,475

The notes on pages 86 to 147 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

1 GENERAL INFORMATION

Nexteer Automotive Group Limited (the **Company**) was incorporated in the Cayman Islands on August 21, 2012 as an exempted company with limited liability under Companies Law (2016 Revision), of the Cayman Islands. The address of the Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company, together with its subsidiaries (collectively referred to as the **Group**), is principally engaged in the design and manufacture of steering and driveline systems, Advanced Driver Assistance Systems (**ADAS**) and Automated Driving (**AD**) and components for automobile manufacturers and other automotive-related companies. The Group's primary operations are in the United States of America (**USA** or **US**), Mexico, Poland and the People's Republic of China (**China**) and are structured to supply its customers globally. The principal markets for the Group's products are North America, Europe and China.

The Company's directors regard Aviation Industry Corporation of China, Ltd. (formerly known as Aviation Industry Corporation of China) (**AVIC**), a company established in China, as being the ultimate holding company of the Company.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since October 7, 2013 (the **Listing**).

These consolidated financial statements (the **Consolidated Financial Statements**) have been approved for issue by the Board of Directors of the Company (the **Board**) on March 13, 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board. The Consolidated Financial Statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 4.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Subsidiaries**(a) Consolidation**

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Upon consolidation, intercompany transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated.

The Group applies the acquisition method to account for business combinations, except for business combinations under common control, which are accounted for using the principles of merger accounting. Under the acquisition method, the consideration transferred for the acquisition is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Consolidated Financial Statements of the subsidiary's net assets including goodwill.

2.3 Joint arrangements

Joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Non-consolidated joint ventures are accounted for using the equity method of accounting.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. Any distributions the Group receives from the joint ventures reduce the carrying amount of the investment.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.3 Joint arrangements (Continued)**

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been aligned where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker who has been identified as the Chief Executive Officer (**CEO**). The CEO is responsible for resource allocation and assessing the performance of the operating segments.

2.5 Foreign currency translation**(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using functional currency in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The Consolidated Financial Statements are presented in US dollars, which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured, except when deferred in other comprehensive income as a qualifying cash flow hedge. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for those intercompany balances which are designated as being of a long-term investment nature.

(c) Group companies

The results of operations and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the related transactions); and
- (iii) All resulting exchange differences are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.6 Property, plant and equipment**

Items of property, plant and equipment (including tools but excluding construction-in-progress) are measured at cost less accumulated depreciation and accumulated impairment losses. Improvements that materially extend the useful life of these assets are capitalised. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Land improvements	3 – 20 years
Leasehold improvements	6 – 18 years or over lease term, whichever is shorter
Buildings	20 – 40 years
Machinery, equipment and tooling	3 – 20 years
Furniture and office equipment	3 – 18 years

Tooling represents tools, dies, jigs and other items used in the manufacturing of customer specific parts. Tools owned by the Group are capitalised as property, plant and equipment and depreciated to cost of sales over their useful lives.

The assets' residual values and useful lives are reviewed annually, and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.9).

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within other gains, net in the income statement.

Construction-in-progress represents leasehold improvements, buildings, machinery and equipment under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction, installation, testing and other direct costs, and capitalised interest. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.7 Land use rights**

Land use rights represent consideration paid for the rights to use the land on which various plants and buildings are situated. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.8 Intangible assets*(a) Research and development*

The Group incurs significant costs and effort on research and development activities, which include expenditures on customer-specific applications, prototypes and testing. Research expenditures are charged to the income statement as an expense in the period the expenditure is incurred. Development costs are recognised as assets if they can be clearly assigned to a newly developed product or process and all the following can be demonstrated:

- (i) The technical feasibility to complete the development project so that it will be available for use or sale;
- (ii) The intention to complete the development project to use it;
- (iii) The ability to use the output of the development project;
- (iv) The manner in which the development project will generate probable future economic benefits for the Group;
- (v) The availability of adequate technical, financial and other resources to complete the development project and use or sell the intangible asset; and
- (vi) The expenditure attributable to the asset during its development can be reliably measured.

The cost of an internally generated intangible asset is the sum of the expenditure incurred from the date the asset meets the recognition criteria above to the date when it is available for use. The costs capitalised in connection with the intangible asset include costs of materials and services used or consumed and employee costs incurred in the creation of the asset. Development expenditures not satisfying the above criteria are recognised in the income statement as incurred.

Capitalised development costs are amortised using the straight-line method over the life of the related production programme, usually four to eight years.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.8 Intangible assets (Continued)****(b) Computer software**

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- (i) It is technically feasible to complete the software product and use it;
- (ii) Management intends to complete the software product and use it;
- (iii) There is an ability to use the software product;
- (iv) It can be demonstrated how the software product will generate probable future economic benefits;
- (v) Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- (vi) The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overhead costs.

Development costs not satisfying the above criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in the subsequent period.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives, which does not exceed five years.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life and intangible development assets not ready to use are not subject to amortisation and are tested annually for impairment and whenever there is an indication of impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (**Cash-Generating Units**). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.10 Financial assets***(a) Classification*

The Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group's financial assets primarily comprise 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 included in current assets, except for the amounts that are expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables (note 2.12), other receivables and prepayments (note 2.12), and cash and cash equivalents (note 2.13) in the consolidated balance sheet.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.10 Financial assets (Continued)****(d) Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (**Loss Event**) and that Loss Event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Inventory cost includes direct material, direct labour and related manufacturing overhead costs (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

2.12 Trade receivables and other receivables and prepayments

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.13 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are included in equity as a deduction from the proceeds.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement as finance cost over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings outstanding during the period up to the amount of actual borrowing costs incurred during that period. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.17 Retirement obligations

The Group has both defined contribution and defined benefit plans. Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, as determined by periodic actuarial calculations.

(a) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to prior or current employee services.

The Group pays contributions to, including but not limited to, publicly or privately administered pension insurance plans on a mandatory or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.17 Retirement obligations (Continued)****(b) Defined benefit plans**

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The salary level trend refers to the expected rate of salary increase, which is estimated annually depending on inflation and the career development of employees within the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. A company specific default risk is not taken into account.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The current service cost of the defined benefit plan is recognised in the income statement in employee benefit expense, except where included in the cost of an asset. The current service cost reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in the income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated income statement.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.18 Current and deferred income tax (Continued)***(b) Deferred income tax**(i) Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(ii) Outside basis differences

Deferred income taxes are not recorded on temporary differences arising on investments in subsidiaries and joint arrangements, except in situations where the timing of the reversal of the temporary difference is not controlled by the Group and it is probable that the temporary difference will reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Provisions

Provisions for restructuring, litigation, environmental liabilities, warranties, decommissioning and other are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions primarily comprise employee payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.21 Revenue recognition**

Revenue is measured at the fair value of the consideration received, or receivable, less any trade discounts, sales returns and allowances allowed by the Group or any commercial incentives linked to sales. The Group recognises revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Group's activities, as described below. The Group contracts with customers, which are generally OEMs in the automotive industry, to sell steering and driveline products. In connection with these contracts the Group also contracts to provide tooling, prototype and engineering services. The revenue recognition policies applied by the Group for each of these activities are as follows:

(i) Product

Revenues are recognised when finished products are shipped to customers, both title and the risks and rewards of ownership are transferred and collectability is reasonably assured.

(ii) Prototype, engineering and pre-production

Prototype, engineering and pre-production activities are only performed in connection with the development of products that will be produced for the customers. Consideration received from customers for engineering, prototyping and pre-production activity is deferred and recognised over the product life cycles of the related products.

(iii) Tooling

The Group's development and sale of tooling for customers is performed in connection with the preparations to produce and sell products to its customers. Consideration received from customers for tooling used in the production of the finished product is recognised as revenue at the time the tooling is accepted by the customers.

2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. The Group's operating leases principally cover real estate, office and other equipment. Depending on the nature of the leased asset, the Group records lease expenses associated with operating leases within cost of sales, selling and distribution expenses or administrative expenses on the income statement as appropriate.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.23 Share-based payment**

The Group established an equity-settled, share-based compensation plan in June 2014, under which the Group receives services from certain employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market performance and service vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Group issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.24 Government grants

The Group periodically receives government grants in support of various business initiatives. Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants used to purchase, construct or otherwise acquire property, plant and equipment or tooling are deducted from the cost of the related asset. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income in the period in which they become receivable.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's Consolidated Financial Statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.26 New/revised standards, amendments to standards and interpretations**(a) New and amended standards adopted by the Group**

The following are the standards applicable to the Group that have been adopted for the first time for the financial year beginning on January 1, 2017:

- Amendments to IAS 7, Statement of Cash Flows (effective for annual periods beginning on or after January 1, 2017) introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Group has adopted this amendment as at January 1, 2017 and has provided the additional disclosure in note 29 of the Consolidated Financial Statements.

The adoption of the above amendment did not have any significant financial effect on the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.26 New/revised standards, amendments to standards and interpretations (Continued)****(b) New and amended standards and interpretations not yet adopted**

The following are the new standards, amendments to standards and interpretations that are not yet applicable to the Group, are effective for annual periods beginning on or after January 1, 2018 and have not been applied in these Consolidated Financial Statements.

- IFRS 15, *Revenue from contracts with customers* (effective for annual periods beginning on or after January 1, 2018) outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers requiring that revenue be recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, *Revenue* and IAS 11, *Construction Contracts* and related interpretations. The new guidance will also require new disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Throughout 2017 and 2016, the Company monitored IASB activity related to the new standard and worked with non-authoritative industry groups to assess relevant issues and the implementation of the new standard.

While the Company is still in the process of completing its evaluation of the standard, customer contracts and arrangements related to our highly customized products and tooling with no alternative use and for which the Company has an enforceable right to payment, may result in a change to the recognition of revenue to be over time as parts are produced, rather than upon shipment or delivery of the parts. The Company does not expect any changes to how it accounts for consideration received from customers for engineering, prototyping and pre-production activity, currently deferred and recognised over the product life cycles of the related products. The Company will adopt this guidance effective January 1, 2018 utilising the Modified Retrospective approach by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings.

- IFRS 9, *Financial instruments* (effective for annual periods beginning on or after January 1, 2018) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost, and introduces new rules for hedge accounting and a new impairment model for financial assets. For financial liabilities, the standard retains most of the requirements of IAS 39, *Financial Instruments: Recognition and Measurement*. The Group is still assessing the impact of this standard, and at this stage, does not intend to adopt IFRS 9 before its effective date.
- IFRS 16, *Leases* (effective for annual periods beginning on or after January 1, 2019) specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors will continue to classify leases as operating or finance according to IAS 17, *Leases*. The standard will affect primarily the accounting for the Group's operating leases. The Group currently has operating lease commitments that will be reflected as lease assets and liabilities pursuant to the provisions of the standard upon adoption. However, the Group has not yet determined to what extent its commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. At this stage, the Group does not intend to adopt IFRS 16 before its effective date.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.26 New/revised standards, amendments to standards and interpretations (Continued)***(b) New and amended standards and interpretations not yet adopted (Continued)*

- IFRIC *Interpretation 22* (effective for annual periods beginning on or after January 1, 2018) addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The Group is still assessing the impact of this interpretation, and at this stage, does not intend to adopt it before its effective date.
- IFRIC *Interpretation 23* (effective for annual periods beginning on or after January 1, 2019) clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12, *Income Taxes* based on taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. The Group intends to adopt this guidance upon its effective date, but does not expect it to have a material impact on its consolidated financial position, results of operations, equity or cash flows.
- Amendments to IAS 12, *Income Taxes*, (effective for annual periods beginning on or after January 1, 2019) clarifies that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends. The Group intends to adopt this guidance upon its effective date, but does not expect it to have a material impact on its consolidated financial position, results of operations, equity or cash flows.
- Amendments to IAS 23, *Borrowing costs*, (effective for annual periods beginning on or after January 1, 2019) clarifies that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. The Group is still assessing the impact of this amendment, and at this stage, does not intend to adopt it before its effective date.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's treasury department focuses on minimising potential adverse effects on the Group's financial performance.

(a) Market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return.

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the European euro (**Euro**), Polish zloty, Mexican peso and Chinese renminbi (**RMB**).

As at each year end, excluding transactional foreign exchange differences, if US dollar strengthened by 10% against Euro and RMB with all other variables held constant, the equity and post-tax result for each year would have decreased mainly as a result of foreign exchange differences on translation of Euro and RMB denominated assets and liabilities:

	Equity US\$'000	Post-tax result US\$'000
As at and for the year ended December 31, 2017		
Euro	36,754	1,798
RMB	48,449	14,394
As at and for the year ended December 31, 2016		
Euro	32,411	808
RMB	34,767	11,088

A weakening of the US dollar by 10% against the above currencies would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Management monitors and analyses expected exchange rate developments and considers hedging foreign currency exposure should the need arise. Prior to 2017, the Group entered into forward exchange contracts to hedge currency exposure between the Mexican peso and the US dollar, the Polish zloty and the US dollar and the Euro and the US dollar.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors** (Continued)*(a) Market risk* (Continued)*(ii) Cash flow interest rate risk*

The Group's interest rate risk primarily arises from current and non-current borrowings. Changes in interest rates on borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group has historically managed certain of its cash flow interest rate risk by using a floating to fixed interest rate swap and assessing the ratio of floating to fixed rate borrowings. The interest rate swap matured during February 2016. As at December 31, 2017, 49% (December 31, 2016: 56%) of the Group's borrowings were in floating rate instruments. In the event there is a change in market conditions the Group will assess moving from primarily variable to fixed rate borrowings or entering into additional interest rate swaps.

As at December 31, 2017, if the interest rates had been 100 basis points higher (lower) than the prevailing rate, with all other variables held constant, profit before income tax for the year ended December 31, 2017 would have been US\$2,887,000 (2016: US\$3,617,000) lower (higher).

(iii) Price risk

Price risk relates to changes in the price of raw materials and related transactional currency risk purchased for production from the time of price quotation to customers and production of saleable parts. The Group manages this risk primarily by negotiating recoveries from customers.

(b) Credit risk

The Group sells to automotive manufacturers throughout the world. Credit risk arises from deposits and derivative financial instruments with banks and financial institutions as well as credit exposures to customers, including outstanding receivables. The treasury department is responsible for managing and analysing the credit risk for each new customer before standard payment and delivery terms and conditions are offered. The customer's creditworthiness is assessed at the local level through analysing past due receivables.

The Group's largest customer is General Motors Company and Subsidiaries (**GM**) and its affiliates, which comprised 43% of revenues during the year ended December 31, 2017 (2016: 42%). Trade receivables from GM and its affiliates was 41% of total trade receivables as at December 31, 2017 (December 31, 2016: 38%).

The Group monitors the credit ratings of its banks and financial institutions. As at December 31, 2017, the Group holds approximately 82% (December 31, 2016: 87%) of its cash in financial institutions with credit ratings of A3 (Moody's) or higher, meaning the institutions have a very strong to extremely strong capacity to meet financial commitments. The majority of the remaining cash is held in banks within investment grade.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors (Continued)***(c) Liquidity risk*

The Group monitors forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs, while maintaining sufficient availability on its undrawn committed borrowing facilities at all times as to not breach borrowing limits or covenants (where applicable) on any of its facilities. The Group's forecasting takes into consideration debt financing plans, covenant compliance and if applicable, external regulatory or legal requirements.

The tables below analyse the Group's financial liabilities. The categories are based on the remaining period as at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows including principal and interest.

	Within 1 year US\$'000	1–2 years US\$'000	2–5 years US\$'000	Over 5 years US\$'000
As at December 31, 2017				
Short-term borrowings	711	–	–	–
Long-term borrowings	100,174	119,120	345,790	–
Finance lease obligations	1,173	1,074	816	–
	102,058	120,194	346,606	–
Trade payables	582,350	–	–	–
Other payables and accruals	138,367	4,727	–	–
	Within 1 year US\$'000	1–2 years US\$'000	2–5 years US\$'000	Over 5 years US\$'000
As at December 31, 2016				
Short-term borrowings	8	–	–	–
Long-term borrowings	103,519	100,520	464,545	–
Finance lease obligations	1,279	1,068	1,718	–
	104,806	101,588	466,263	–
Trade payables	604,498	–	–	–
Other payables and accruals	107,362	9,161	–	–

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)**3.2 Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and maintain an optimal capital structure to reduce the cost of capital. The Group monitors the gearing ratio to evaluate capital efficiency. Gearing ratio is a rate of total borrowings divided by total equity at the end of each year, and is displayed as follows:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Total borrowings (note 16)	491,181	564,147
Total equity	1,440,715	1,091,023
Gearing ratio	34.1%	51.7%

3.3 Fair value estimation

The carrying amounts of the Group's current financial assets and liabilities, including cash and cash equivalents, restricted bank deposits, trade receivables, other receivables and prepayments, trade payables, other payables and accruals, and current borrowings approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The Group had no financial assets or liabilities measured at fair value as at December 31, 2017 and December 31, 2016. The different levels are defined as follows:

- The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency; and, those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in **Level 1**.
- The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in **Level 2**.
- If one or more of the significant inputs is not based on observable market data, the instrument is included in **Level 3**.

There were no transfers of financial assets between fair value hierarchy classifications.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

(a) Intangible assets not available for use

(i) Capitalisation

Costs incurred on development projects are recognised as intangible assets when it is probable that the projects will be successful considering the criteria set out in note 2.8. The Group's development activities are tracked and documented to support the basis of determining if and when the criteria were met.

(ii) Impairment

The Group is required to test for impairment of intangible development assets not available for use on an annual basis. The recoverable amount is determined based on the higher of fair value less cost to sell and value in use.

Determination of the value in use is an area involving management judgement in order to assess whether the carrying value of the intangible development assets not available for use can be supported by the net present value of future cash flows specific to each development asset or Cash Generating Unit. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of future unlevered free cash flows, long-term growth rates and the selection of discount rates to reflect the risks involved.

The Group uses the most recent detailed calculation of that asset's recoverable amount made in a preceding period when all of the following criteria are met: the assets and liabilities of the Group have not changed significantly from the most recent calculation; the most recent calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and based on an analysis of events that have occurred and circumstances that have changed since the most recent calculation, the likelihood that a current recoverable amount determination would be less than the asset's carrying amount is remote.

(b) Retirement benefits

The costs, assets and liabilities of the defined benefit plans operated by the Group are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions and the sensitivity analysis of such assumptions are set out in note 17. Changes in the assumptions used may have a significant effect on the statement of comprehensive income and the balance sheet.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**(c) Provisions**

The Group recognises a provision when there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where these criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed or those which are not currently recognised or disclosed in the Consolidated Financial Statements could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control.

(i) Litigation

From time to time the Group is subject to various legal actions and claims incidental to its business, including those arising out of alleged defects, breach of contracts, intellectual property matters and employment related matters.

The Group believes its established reserves are adequate to cover such items; however, the final amounts required to resolve these matters could differ materially from recorded estimates.

Litigation is subject to many uncertainties and the outcome of the individually litigated matters is not predictable with assurance. Based on currently available information, it is the opinion of management that the outcome of such matters will not have a material adverse impact on the Group.

(ii) Environmental liabilities

The Group records environmental liabilities based upon estimates of financial exposure with respect to environmental sites. Environmental requirements may become more stringent over time or eventual environmental cleanup costs and liabilities may ultimately exceed current estimates. Moreover, future facilities sales could trigger additional, perhaps material, environmental remediation costs, as previously unknown conditions may be identified.

(iii) Warranties

The Group recognises expected warranty costs for products sold principally at the time of sale of the product or when it is determined that such obligations are probable and can be reasonably estimated. Amounts recorded are based on the Group's estimates of the amount that will eventually be required to settle such obligations. These accruals are based on factors such as specific customer arrangements, past experience, production changes, industry developments and various other considerations. The Group's estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims.

(iv) Decommissioning

The Group identified conditional asset retirement obligations primarily relate to asbestos abatement and removal and disposal of storage tanks at certain of our sites. Amounts recorded are based on the Group's estimate of future obligations to leave or close a facility. Sites are continually monitored for changes that may impact future obligations for decommissioning. The Group records accretion expense monthly to account for discounting of such obligations.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**(d) Other payables and accruals***Self-insurance*

The Group is self-insured for certain losses relating to employee's health insurance. The Group has insurance coverage to limit the exposure arising from these claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Although management believes it has the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities.

(e) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgements about future events. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets are recognised only if it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. This determination requires significant judgement regarding the realisability of deferred tax assets. For entities with a recent history of losses, there would need to be convincing other evidence that sufficient taxable profits would be available in the future. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(f) Share-based payment

In determining the fair value of the share option scheme, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

5 SEGMENT INFORMATION

The Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's CEO in order to allocate resources to the segments and assess their performance. For each of the Group's reportable segments, the Group's CEO reviews internal management reports on a quarterly basis.

The Group classifies its businesses into three reportable segments: North America, Asia Pacific, and Europe and South America. All of the Group's operating segments typically offer the same steering and driveline products. The "Others" category represents parent company activities of the Company and activities of its non-operating direct and indirect subsidiaries, as well as elimination entries between segments.

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (Continued)

The key performance indicators that the Group monitors to manage segment operations are:

- Operating income before interest, taxes, depreciation and amortisation (including impairment on property, plant and equipment) and share of results of joint ventures (**Adjusted EBITDA**).
- Total assets and total liabilities represent total current and non-current assets and total current and non-current liabilities of the segments and include assets and liabilities between operating segments.

Information about reportable segments and reconciliations of reportable segment revenues is as follows:

	North America US\$'000	Asia Pacific US\$'000	Europe & South America US\$'000	Others US\$'000	Total US\$'000
For the year ended December 31, 2017					
Total revenue	2,571,226	893,653	502,568	–	3,967,447
Inter-segment revenue	(37,314)	(39,183)	(12,941)	–	(89,438)
Revenue from external customers	2,533,912	854,470	489,627	–	3,878,009
Adjusted EBITDA	414,885	170,303	42,357	(6,261)	621,284
For the year ended December 31, 2016					
Total revenue	2,555,031	943,669	430,797	–	3,929,497
Inter-segment revenue	(41,405)	(44,287)	(1,561)	–	(87,253)
Revenue from external customers	2,513,626	899,382	429,236	–	3,842,244
Adjusted EBITDA	395,884	173,777	16,256	(7,825)	578,092

Revenue transactions between segments are carried out at an arm's length. The revenue from external parties reported to the Group's CEO is measured in a manner consistent with that in the consolidated income statement.

	North America US\$'000	Asia Pacific US\$'000	Europe & South America US\$'000	Others US\$'000	Total US\$'000
As at December 31, 2017					
Total assets	1,824,224	812,613	383,489	(40,943)	2,979,383
Total liabilities	(952,741)	(290,998)	(164,586)	(130,343)	(1,538,668)
As at December 31, 2016					
Total assets	1,667,327	705,244	338,310	(17,513)	2,693,368
Total liabilities	(1,063,447)	(324,899)	(155,741)	(58,258)	(1,602,345)

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (Continued)

Reconciliations of reportable segment Adjusted EBITDA to those as determined under IFRS are as follows:

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Adjusted EBITDA from reportable segments	621,284	578,092
Depreciation and amortisation expenses	(183,542)	(162,602)
Impairment on property, plant and equipment (i)	(9,527)	–
Finance costs, net	(21,348)	(30,168)
Share of (loss) income of joint ventures	(1,818)	684
Profit before income tax	405,049	386,006

Note:

- (i) Impairment on property, plant and equipment due to cancellation of customer programmes, see note 6.

In presenting information on the basis of geography, segment revenue is based on the geographical location of subsidiaries and segment assets and liabilities are based on geographical location of the assets.

Adjusted EBITDA includes a non-cash component for deferred revenue amortisation. For the year ended December 31, 2017, the North America segment and Asia Pacific segment recognised US\$24,627,000 (2016: US\$21,570,000) and US\$831,000 (2016: US\$695,000), respectively.

The geographic distribution of revenue for the years ended December 31, 2017 and 2016 is as follows:

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
North America:		
US	1,706,861	1,746,888
Mexico	827,051	766,738
Asia Pacific:		
China	788,308	855,378
Rest of Asia Pacific	66,162	44,004
Europe and South America:		
Poland	412,467	379,649
Rest of Europe and South America	77,160	49,587
	3,878,009	3,842,244

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (Continued)

The geographic distribution of non-current assets excluding deferred income tax assets as at December 31, 2017 and 2016 is as follows:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
North America:		
US	805,790	760,114
Mexico	201,841	143,049
Asia Pacific:		
China	226,993	202,348
Rest of Asia Pacific	14,471	11,689
Europe and South America	162,025	138,665
	1,411,120	1,255,865

Distribution of revenue between product lines for the years ended December 31, 2017 and 2016 is as follows:

	For the year ended		For the year ended	
	December 31, 2017		December 31, 2016	
	US\$'000	%	US\$'000	%
EPS	2,482,301	64.0	2,383,742	62.0
HPS	177,356	4.6	186,745	4.9
CIS	636,711	16.4	635,257	16.5
DL	581,641	15.0	636,500	16.6
	3,878,009	100.0	3,842,244	100.0

Revenues from customers amounting to 10 percent or more of the Group's revenue are as follows and reported in all segments:

	For the year ended	
	December 31,	2016
	2017	2016
	US\$'000	US\$'000
GM	1,667,067	1,614,454
Customer A	797,745	782,747
Customer B	526,485	499,452
	2,991,297	2,896,653

Notes to the Consolidated Financial Statements

6 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and land improvements US\$'000	Leasehold improvement US\$'000	Buildings US\$'000	Machinery, equipment and tooling US\$'000	Furniture and office equipment US\$'000	Construction in progress US\$'000	Total US\$'000
As at January 1, 2016							
Cost	7,821	7,974	32,602	851,164	2,951	78,345	980,857
Accumulated depreciation	(1,840)	(2,632)	(10,163)	(279,726)	(1,221)	–	(295,582)
Net book amount	5,981	5,342	22,439	571,438	1,730	78,345	685,275
Year ended December 31, 2016							
Opening net book amount	5,981	5,342	22,439	571,438	1,730	78,345	685,275
Additions (transfers upon completion)	1,409	9,148	8,512	137,924	1,248	44,598	202,839
Disposals	–	(29)	(9)	(2,079)	(40)	(236)	(2,393)
Depreciation	(185)	(1,805)	(1,245)	(90,071)	(343)	–	(93,649)
Exchange differences	51	(373)	(882)	(11,701)	(91)	58	(12,938)
Net book amount as at December 31, 2016	7,256	12,283	28,815	605,511	2,504	122,765	779,134
As at January 1, 2017							
Cost	9,254	17,453	39,533	958,261	3,898	122,765	1,151,164
Accumulated depreciation	(1,998)	(5,170)	(10,718)	(352,750)	(1,394)	–	(372,030)
Net book amount	7,256	12,283	28,815	605,511	2,504	122,765	779,134
Year ended December 31, 2017							
Opening net book amount	7,256	12,283	28,815	605,511	2,504	122,765	779,134
Additions (transfers upon completion)	2,668	1,386	11,449	180,284	423	(3,678)	192,532
Disposals	–	(9)	(69)	(3,428)	(8)	(54)	(3,568)
Impairment	–	–	–	(3,396)	–	(6,131)	(9,527)
Depreciation	(154)	(2,338)	(1,534)	(96,491)	(422)	–	(100,939)
Exchange differences	291	464	2,308	19,315	118	3,990	26,486
Net book amount as at December 31, 2017	10,061	11,786	40,969	701,795	2,615	116,892	884,118
As at December 31, 2017							
Cost	12,301	19,671	53,600	1,154,116	4,351	116,892	1,360,931
Accumulated depreciation	(2,240)	(7,885)	(12,631)	(452,321)	(1,736)	–	(476,813)
Net book amount	10,061	11,786	40,969	701,795	2,615	116,892	884,118

Notes to the Consolidated Financial Statements

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

Certain of the Group's property, plant and equipment have been pledged as collateral under the Group's borrowing arrangements. The carrying amounts of property, plant and equipment pledged as collateral were US\$549,506,000 as at December 31, 2017 (December 31, 2016: US\$574,330,000).

Property, plant and equipment at December 31, 2017 included equipment under finance lease of US\$5,858,000 (December 31, 2016: US\$5,723,000), including accumulated depreciation of US\$2,109,000 (December 31, 2016: US\$1,653,000).

Depreciation has been charged to the following function of expenses:

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Cost of sales	91,958	87,123
Engineering and product development costs	5,323	4,070
Administrative expenses	3,658	2,456
	100,939	93,649

During the year ended December 31, 2017, the Group recorded impairment of US\$9,527,000 within cost of sales in the Europe and South America and Asia Pacific segments on machinery, equipment and tooling and construction in progress related to equipment that had been purchased and in construction to be used for specific customer programmes. Due to the sale of a branch of this customer's business, the programmes have been cancelled, and the equipment has been deemed to be impaired.

The additions for the year ended December 31, 2017 include US\$209,000 of capitalised borrowing costs (2016: US\$264,000). Borrowing costs were capitalised at the weighted average of the borrowing rate of 5.8% for the year ended December 31, 2017 (2016: 5.6%).

7 LAND USE RIGHTS

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Cost		
As at January 1	932	976
Additions	891	—
Exchange differences	87	(44)
As at December 31	1,910	932
Accumulated amortisation		
As at January 1	364	342
Amortisation	43	25
Exchange differences	3	(3)
	410	364
Net book amount		
As at December 31	1,500	568

Notes to the Consolidated Financial Statements

8 INTANGIBLE ASSETS

	Product development costs US\$'000	Computer software development costs US\$'000	Total US\$'000
Cost			
As at January 1, 2016	497,717	24,066	521,783
Additions	121,704	2,956	124,660
Impairment	(12,249)	–	(12,249)
Exchange differences	(1,682)	(18)	(1,700)
As at December 31, 2016	605,490	27,004	632,494
Accumulated amortisation			
As at January 1, 2016	111,401	2,711	114,112
Amortisation	64,795	4,133	68,928
Exchange differences	(254)	–	(254)
As at December 31, 2016	175,942	6,844	182,786
Net book amount			
As at December 31, 2016	429,548	20,160	449,708
Cost			
As at January 1, 2017	605,490	27,004	632,494
Additions	125,273	516	125,789
Exchange differences	2,023	3	2,026
As at December 31, 2017	732,786	27,523	760,309
Accumulated amortisation			
As at January 1, 2017	175,942	6,844	182,786
Amortisation	76,813	5,747	82,560
Exchange differences	433	–	433
As at December 31, 2017	253,188	12,591	265,779
Net book amount			
As at December 31, 2017	479,598	14,932	494,530

The additions for the year ended December 31, 2017 include US\$10,481,000 of capitalised interest related to the borrowings associated with developmental costs (2016: US\$7,028,000). Borrowing costs were capitalised at the weighted average of the borrowing rate of 5.8% for the year ended December 31, 2017 (2016: 5.6%).

Notes to the Consolidated Financial Statements

8 INTANGIBLE ASSETS (Continued)

Amortisation has been charged to the following function of expenses:

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Cost of sales	81,364	68,215
Administrative expenses	1,196	713
	82,560	68,928

Impairment tests

Capitalised product development costs not yet available for use are tested annually based on the recoverable amount of the Cash Generating Unit to which the intangible asset is related.

The recoverable amount of the Cash Generating Units is determined based upon value in use from the most recent detailed calculations. The value in use is estimated using the discounted cash flow approach. For significant Cash Generating Units, the pretax discount rates used to estimate future cash flows range between 7.5% and 14%, which are based on an estimated weighted average cost of capital depending on geographical location and risk factors and includes estimates of country risk premiums. Estimated cash flows are based on the estimated useful life of the Cash Generating Unit.

In determining value in use, it is necessary to make a series of assumptions to estimate future cash flows. There is risk in future profitability such as customer volumes and commodity pricing. The assumptions for customer volumes and commodity pricing are reviewed annually as part of management's budgeting and strategic planning cycles.

The assumptions related to customer volume and timing of sales to customers may vary due to a number of factors, including variation in demand for customers' products, customers' attempts to manage their inventories, design changes, changes in customers' manufacturing strategy, etc. Accordingly, many of the Group's customers do not commit to long term production schedules.

The assumptions related to commodity pricing may vary as raw material costs are influenced by several commodities and the volatility of these prices may have an adverse impact on the Group's business. However, to mitigate the risk the Group continues its efforts to pass material, component and supply cost increases to the Group's customers.

The Group recorded a product development intangible asset impairment of US\$12,249,000 related to further declines in the Brazilian economy during the year ended December 31, 2016. There was no intangible asset impairment recorded for the year ended December 31, 2017.

Notes to the Consolidated Financial Statements

9 DEFERRED INCOME TAXES

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Deferred income tax assets:		
– To be recovered after more than 12 months	4,093	2,649
– To be recovered within 12 months	22,050	33,811
	26,143	36,460
Deferred income tax liabilities:		
– To be settled after more than 12 months	(86,713)	(83,216)
– To be settled within 12 months	–	–
	(86,713)	(83,216)
Deferred income tax liabilities, net	(60,570)	(46,756)

The reconciliation of deferred income tax liabilities, net to the consolidated balance sheet is as follows:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Deferred income tax assets	7,042	9,948
Deferred income tax liabilities	(67,612)	(56,704)
Deferred income tax liabilities, net	(60,570)	(46,756)

Notes to the Consolidated Financial Statements

9 DEFERRED INCOME TAXES (Continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Property, plant and equipment US\$'000	Retirement benefits and compensation US\$'000	Provisions and accruals US\$'000	Tax losses and credits US\$'000	Intangible assets US\$'000	Others US\$'000	Total US\$'000
Deferred income tax assets							
As at January 1, 2016	4,431	14,431	72,112	3,851	–	12,010	106,835
(Charged) Credit to income statement	(1,060)	2,716	2,367	(733)	–	(1,846)	1,444
Credit to other comprehensive income	–	9	5,729	–	–	–	5,738
Exchange differences	(144)	(112)	(210)	(26)	–	(46)	(538)
As at December 31, 2016	3,227	17,044	79,998	3,092	–	10,118	113,479
As at January 1, 2017	3,227	17,044	79,998	3,092	–	10,118	113,479
(Charged) credit to income statement	(1,589)	(3,856)	(13,558)	(238)	–	176	(19,065)
Remeasurement of deferred taxes (i)	–	(2,811)	(23,833)	(1,004)	–	(2,868)	(30,516)
Credit to equity	–	–	2,245	–	–	–	2,245
Credit to other comprehensive income	–	93	–	–	–	–	93
Exchange differences	106	82	154	19	–	34	395
As at December 31, 2017	1,744	10,552	45,006	1,869	–	7,460	66,631
Deferred income tax liabilities							
As at January 1, 2016	(751)	–	(931)	–	(143,064)	(2,509)	(147,255)
(Charged) credit to income statement	(881)	(8)	1,481	–	(12,885)	(51)	(12,344)
Charged to other comprehensive income	–	–	(517)	–	–	–	(517)
Exchange differences	(39)	–	(52)	–	–	(28)	(119)
As at December 31, 2016	(1,671)	(8)	(19)	–	(155,949)	(2,588)	(160,235)
As at January 1, 2017	(1,671)	(8)	(19)	–	(155,949)	(2,588)	(160,235)
Charged to income statement	(15,332)	(659)	(293)	–	(12,684)	(7,584)	(36,552)
Remeasurement of deferred taxes (i)	5,855	–	–	–	63,645	–	69,500
Exchange differences	29	–	38	–	–	19	86
As at December 31, 2017	(11,119)	(667)	(274)	–	(104,988)	(10,153)	(127,201)

Note:

- (i) On December 22, 2017, President Donald Trump signed into law “H.R.1”, formerly known as the “Tax Cuts and Jobs Act”, which among other items reduces the US federal corporate income tax rate from 35% to 21% with effect from January 1, 2018. As a result, the Company has remeasured its deferred tax assets and liabilities as at December 31, 2017, which is the period of substantive enactment of the legislation. The Company’s deferred tax assets and liabilities generally represent a decrease or an increase, respectively, in corporate income taxes expected to be paid in the future. The impact to the Company is that the net deferred tax liabilities were revalued downward, with a corresponding deferred income tax benefit of approximately US\$39.0 million.

Notes to the Consolidated Financial Statements

9 DEFERRED INCOME TAXES (Continued)

Deferred income tax assets are recognised for tax loss carry-forwards and deductible temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable. Deferred income tax assets being calculated at applicable tax rates have not been recognised in respect of the following as management believes it is more likely than not that they would not be utilised before expiration:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Tax losses	17,033	14,112
Deductible temporary differences	3,855	5,045
	20,888	19,157

As at December 31, 2017, the Group has US\$11,946,000 (December 31, 2016: US\$12,865,000) of gross net operating loss (**NOL**) carry forwards in the US subject to certain annual utilisation limitations, which will expire in 2032. As at December 31, 2017, the Group has US\$57,127,000 (December 31, 2016: US\$44,571,000) of non-US gross NOL carry-forwards which have various expiration dates of which a significant amount is unlimited.

Deferred income tax liabilities of US\$7,800,000 have been provided for the withholding tax that would be payable on the portion of unremitted earnings of certain subsidiaries intended to be distributed in the foreseeable future. Deferred income tax liabilities have not been recognised on the remaining unremitted earnings because the Group is able to control the timing of reversal of the temporary differences. Unremitted earnings totaled US\$1,027,747,000 as at December 31, 2017 (December 31, 2016: US\$764,170,000).

10 INVENTORIES

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Raw materials	155,698	171,364
Work in progress	37,070	36,110
Finished goods	64,937	69,140
	257,705	276,614
Less: provision for impairment losses	(16,448)	(14,865)
	241,257	261,749

The cost of inventories recognised as an expense and included in cost of sales for the year ended December 31, 2017 amounted to US\$2,956,661,000 (2016: US\$2,958,592,000).

The carrying amounts of inventories pledged as collateral were US\$157,446,000 as at December 31, 2017 (December 31, 2016: US\$164,119,000).

Notes to the Consolidated Financial Statements

11 TRADE RECEIVABLES

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Trade receivables, gross	612,056	590,647
Less: provision for impairment	(1,257)	(1,005)
	610,799	589,642

Credit terms range primarily from 30 to 90 days after the invoice date depending on the customer and the geographical region. Ageing analysis of trade receivables based on invoice date is as follows:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
0 to 30 days	328,761	254,713
31 to 60 days	235,812	224,652
61 to 90 days	23,490	84,107
Over 90 days	23,993	27,175
	612,056	590,647

Trade receivables of US\$29,367,000 were past due but not impaired as at December 31, 2017 (December 31, 2016: US\$47,614,000). These relate mainly to a number of customers for whom there is no history of default. The ageing analysis of these past due but not impaired receivables is as follows:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Overdue up to 30 days	20,568	40,687
Overdue 31 to 60 days	858	3,833
Overdue 61 to 90 days	933	429
Overdue over 90 days	7,008	2,665
	29,367	47,614

The provision for impairment of receivables includes estimates and assessments of individual receivables based on the creditworthiness of the respective customer, current economic developments and the analysis of historical losses on receivables. The creditworthiness of a customer is assessed on their payment history, ability to make payments and customer credit rating from third party rating agencies.

Trade receivables of US\$1,257,000 were impaired as at December 31, 2017 on which full provisions were made (December 31, 2016: US\$1,005,000). These individually impaired receivables are relatively long overdue.

Notes to the Consolidated Financial Statements

11 TRADE RECEIVABLES (Continued)

Movement on the provision for impairment of trade receivables is as follows:

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
As at January 1	1,005	1,401
Addition (Reversal) of provision	133	(360)
Exchange differences	119	(36)
As at December 31	1,257	1,005

The carrying amounts of trade receivables pledged as collateral were US\$325,954,000 as at December 31, 2017 (December 31, 2016: US\$304,000,000).

12 OTHER RECEIVABLES AND PREPAYMENTS

	As at December 31,	
	2017 US\$'000	2016 US\$'000
Amounts reimbursable from customers on tools	35,996	28,576
Other taxes recoverable (i)	42,101	37,154
Prepaid assets	29,278	27,543
Reimbursable engineering expenses	4,051	6,825
Deposits to vendors	7,324	5,048
Others	2,987	1,685
	121,737	106,831
Less: non-current portion	(19,951)	(15,869)
Current portion	101,786	90,962

Note:

- (i) Balance mainly represents value-added tax recoverable and certain incentives granted to the Group for investing capital and maintaining jobs in the State of Michigan, USA.

13 RESTRICTED BANK DEPOSITS

As at December 31, 2017, restricted bank deposits of US\$6,591,000 (December 31, 2016: US\$727,000) are maintained with banks for issuance of letters of credit and pledges of bank borrowings.

14 CASH AND CASH EQUIVALENTS

The Group's RMB balances of US\$108,151,000 are deposited with banks in China as at December 31, 2017 (December 31, 2016: US\$83,749,000). The RMB is not a freely convertible currency. The conversion of these RMB denominated balances into foreign currencies in China is subject to rules and regulations of foreign exchange control promulgated by the China government. Cash balances denominated in RMB will be used as part of the normal operating activities in China and are classified as unrestricted cash on this basis.

Notes to the Consolidated Financial Statements

15 RESERVES

	Share premium US\$'000	Merger reserve US\$'000	Share-based compensation reserve US\$'000	Exchange reserve US\$'000	Hedging reserve US\$'000	Total other reserves US\$'000
As at January 1, 2016	199,080	113,000	3,736	(59,351)	(890)	255,575
Dividends paid to shareholders	(39,913)	-	-	-	-	(39,913)
Value of employee services provided under share-option scheme (note 24(a))	-	-	2,456	-	-	2,456
Transfer to share premium under exercise of share options	1,330	-	(1,330)	-	-	-
Exercise of options	2,700	-	-	-	-	2,700
Exchange differences, net of tax	-	-	-	(29,487)	-	(29,487)
Cash flow hedge, net of tax	-	-	-	-	890	890
As at December 31, 2016	163,197	113,000	4,862	(88,838)	-	192,221
Dividends paid to shareholders	(59,856)	-	-	-	-	(59,856)
Value of employee services provided under share-option scheme (note 24(a))	-	-	3,806	-	-	3,806
Transfer to share premium under exercise of share options	1,120	-	(1,120)	-	-	-
Exercise of options	2,286	-	-	-	-	2,286
Exchange differences, net of tax	-	-	-	45,567	-	45,567
As at December 31, 2017	106,747	113,000	7,548	(43,271)	-	184,024

Notes:

(i) Share premium

Share premium of the Group represents the difference between the fair value of shares issued and their respective par value. Incremental costs directly attributable to the issue of new shares are shown as an increase in share premium.

A dividend of US\$59,856,000 relating to the Group's year ended December 31, 2016 earnings was paid during the year ended December 31, 2017 (year ended December 31, 2016: US\$39,913,000).

(ii) Merger reserve

The Company was incorporated on August 21, 2012 and the Group's reorganisation was completed on January 30, 2013. The merger reserve in the consolidated balance sheets as at December 31, 2017 and 2016 represent the aggregate amount of share capital of PCM US Steering Holding LLC and PCM (Singapore) Steering Holding Pte. Limited.

(iii) Share-based compensation reserve

The share-based compensation reserve comprises the value of employee services provided under the share option scheme. The reserve is relieved when options are exercised in the amount of services recognized related to those option.

(iv) Exchange reserve

Exchange reserve arises from currency translations of all group entities that have a functional currency different from the US dollar being translated into the Group's presentation currency of US dollar.

(v) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

Notes to the Consolidated Financial Statements

16 BORROWINGS

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Non-current		
Borrowings from banks		
– secured (note (1a))	43,607	58,123
– unsecured (note (1b))	121,612	182,000
Notes, net of discounts (note (1d))	250,000	250,000
Finance lease obligations (note (1e))	1,767	2,519
Debt issuance costs (note (1f))	(2,841)	(3,983)
	414,145	488,659
Current		
Borrowings from banks		
– secured, others (note (1c))	690	8
Add: current portion of:		
– non-current secured borrowings (note (1a))	15,482	14,580
– non-current unsecured borrowings (note (1b))	61,000	61,000
– finance lease obligations (note (1e))	1,006	1,042
– Debt issuance costs (note (1f))	(1,142)	(1,142)
	77,036	75,488
Total borrowings	491,181	564,147

(1) Note:

(a) This primarily includes:

- (i) Long-term borrowings of US\$44,643,000 (December 31, 2016: US\$55,357,000) which bears interest at LIBOR plus 1.75%–2.25% per annum and matures in 2019. Secured by property, plant and equipment, trade receivables and inventories. This was repaid subsequent to December 31, 2017. See note 34.
- (ii) Long-term borrowings of US\$13,569,000 (December 31, 2016: US\$15,784,000) which bears interest at EURIBOR plus 3.1% and matures in 2020. Secured by property and plant.
- (iii) Long-term borrowings of US\$877,000 (December 31, 2016: US\$1,562,000) borrowed by a subsidiary of the Group which bears interest at LIBOR plus 2.63% per annum, and is secured by property, plant and equipment, trade receivables and inventories.

(b) This primarily includes:

- (i) Bank loans totaling US\$182,000,000 as at December 31, 2017 (December 31, 2016: US\$243,000,000), which are guaranteed by AVIC and Beijing E-Town International Investment & Development Co., Ltd., (indirect shareholders of Pacific Century Motors, Inc. which is an intermediate holding company of the Company), bear interest at LIBOR plus 3.5% per annum and due in semi-annual installments of US\$30,500,000 which commenced in June 2014 and mature in October 2020 with the last repayment to be made then.
- (ii) Long-term borrowings of US\$612,000 (December 31, 2016: US\$ nil) which bears interest at 4.75% and matures in 2020.

Notes to the Consolidated Financial Statements

16 BORROWINGS (Continued)**(1)** Note: (Continued)

(c) This primarily includes:

- (i) A revolving line of credit of US\$nil (December 31, 2016: US\$nil) with availability to borrow up to US\$250,000,000 obtained by a subsidiary of the Group which bears interest at either LIBOR plus 1.50% or prime plus 1.75% per annum, depending on borrowing type, matures in 2019 and is secured by property, plant and equipment, trade receivables and inventories. This was refinanced subsequent to December 31, 2017. See note 34.
- (ii) A factoring facility of US\$nil (December 31, 2016: US\$nil) obtained by a subsidiary of the Group, which bears interest at EURIBOR + 1.05% per annum and is secured by trade receivables with availability to borrow up to US\$47,758,000, which matures in 2018.
- (iii) A revolving line of credit of US\$690,000 (December 31, 2016: US\$8,000) with availability to borrow an additional US\$3,212,000 borrowed by a subsidiary of the Group which bears interest at the Reserve Bank of India Base Rate +2.5% per annum, is secured by property, plant and equipment, trade receivables and inventories and matures in 2018.

(d) Notes of US\$250,000,000 in aggregate principal amount of 5.875% senior unsecured notes maturing on November 15, 2021.

(e) Finance lease obligations:

(i) Gross finance leases liabilities – minimum lease payments:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Within 1 year	1,173	1,279
Between 1 and 2 years	1,074	1,068
Between 2 and 5 years	816	1,718
	3,063	4,065
Less: future finance charges	(290)	(504)
	2,773	3,561

(ii) Present value of finance lease obligations:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Within 1 year	1,006	1,042
Between 1 and 2 years	985	909
Between 2 and 5 years	782	1,610
	2,773	3,561

(f) The Group capitalised debt issuance costs related to various borrowings as noted above. Amortisation of the debt issuance costs is recognised in the income statement as finance cost over the period of the borrowing using the effective interest method. The unamortised balance of debt issuance costs is US\$3,983,000 as at December 31, 2017 (December 31, 2016: US\$5,125,000).

Notes to the Consolidated Financial Statements

16 BORROWINGS (Continued)**(2) Maturity of borrowings**

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Within 1 year	77,036	75,488
Between 1 and 2 years	99,171	75,668
Between 2 and 5 years	314,974	412,991
Over 5 years	—	—
	491,181	564,147

(3) The carrying amount and fair value of non-current borrowings are as follows:

	As at December 31,			
	Carrying Amount		Fair value	
	2017	2016	2017	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Bank borrowings	164,438	238,916	160,481	231,332
Other borrowings	247,940	247,224	258,820	258,631
Finance lease obligations	1,767	2,519	1,889	2,786
	414,145	488,659	421,190	492,749

The fair values of bank borrowings are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristic as at the balance sheet dates. Such discount rates ranged from 3.05% to 5.55% as at December 31, 2017 (December 31, 2016: 5.12% to 5.22%), depending on the type of the debt and were within Level 2 of the fair value hierarchy.

The fair values of other borrowings are based on quoted prices in active markets and were within Level 1 of the fair value hierarchy.

(4) Weighted average annual interest rates

	As at December 31,	
	2017	2016
Bank borrowings	5.4%	5.1%
Notes	5.9%	5.9%

Notes to the Consolidated Financial Statements

16 BORROWINGS (Continued)**(5) Currency denomination**

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
US\$	475,433	546,793
Euro	14,446	17,346
RMB	612	–
Indian Rupee	690	8
	491,181	564,147

17 RETIREMENT BENEFITS AND COMPENSATION

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Pension – defined benefit plans (note (a))	11,343	10,057
Extended disability benefits (note (b))	3,189	5,435
Workers' compensation (note (c))	5,742	6,095
	20,274	21,587
Less: non-current portion	(17,171)	(18,160)
Current portion	3,103	3,427

(a) Pension – defined benefit plans

The Group sponsors various defined benefit plans that generally provide benefits based on negotiated amounts for each year of eligible service. The Group's most significant plans are under regulatory frameworks in Mexico, Germany, France, Korea and the US. The US Supplemental Executive Retirement Plan (**US SERP**) is a frozen plan. The plans had no curtailments or settlements affecting the defined benefit obligation.

Notes to the Consolidated Financial Statements

17 RETIREMENT BENEFITS AND COMPENSATION (Continued)**(a) Pension – defined benefit plans (Continued)**

The Group employs Mercer (U.S.) Inc., an independent qualified actuary, to measure pension costs using the projected unit credit method. The amounts recognised in the consolidated balance sheet are determined as follows:

	For the year ended December 31, 2017			For the year ended December 31, 2016		
	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000
Present value of funded obligations (note (i))	11,239	1,599	12,838	9,647	1,651	11,298
Fair value of plan assets (note (ii))	(1,495)	–	(1,495)	(1,241)	–	(1,241)
Deficit of funded plans	9,744	1,599	11,343	8,406	1,651	10,057

There is no current requirement for the Group to fund the deficit between the fair value of plan assets and the present value of the defined benefit plan obligations as at December 31, 2017.

(i) Movement in the present value of defined benefit obligations:

	For the year ended December 31, 2017			For the year ended December 31, 2016		
	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000
Opening balance	9,647	1,651	11,298	9,309	1,685	10,994
Current service cost	672	–	672	668	–	668
Past service income	–	–	–	(49)	–	(49)
Interest cost	508	46	554	469	51	520
Losses (gains) from changes in financial assumptions	411	6	417	(373)	12	(361)
Increase due to effect of business combinations, divestitures, transfers	–	–	–	775	–	775
Experience (gains) losses	(208)	(37)	(245)	336	(30)	306
Losses (gains) from changes in demographic assumptions	91	–	91	(99)	–	(99)
Exchange differences	617	–	617	(926)	–	(926)
Benefits paid	(499)	(67)	(566)	(463)	(67)	(530)
Ending balance	11,239	1,599	12,838	9,647	1,651	11,298

Notes to the Consolidated Financial Statements

17 RETIREMENT BENEFITS AND COMPENSATION (Continued)**(a) Pension – defined benefit plans** (Continued)

(ii) Movement in the fair value of plan assets:

	For the year ended December 31, 2017			For the year ended December 31, 2016		
	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000
Opening balance	(1,241)	–	(1,241)	(483)	–	(483)
Interest income	(60)	–	(60)	(27)	–	(27)
Loss on plan assets, excluding amounts included in interest income	18	–	18	6	–	6
Administrative expenses	3	–	3	1	–	1
Employer contributions	(576)	(67)	(643)	(1,313)	(67)	(1,380)
Exchange differences	(138)	–	(138)	112	–	112
Benefits paid	499	67	566	463	67	530
Ending balance	(1,495)	–	(1,495)	(1,241)	–	(1,241)

Plan assets comprise as follows:

	As at December 31,	
	2017	2016
Equities	9%	12%
Bonds	8%	11%
Cash and cash equivalents	8%	11%
Other	75%	66%
	100%	100%

Amounts recognised in other comprehensive income:

	For the year ended December 31, 2017			For the year ended December 31, 2016		
	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000
(Losses) gains from changes in financial assumptions	(411)	(6)	(417)	373	(12)	361
Experience gains (losses)	208	37	245	(336)	30	(306)
(Losses) gains from changes in demographic assumptions	(91)	–	(91)	99	–	99
Loss on plan assets, excluding amounts included in interest income	(18)	–	(18)	(6)	–	(6)
Total	(312)	31	(281)	130	18	148

Notes to the Consolidated Financial Statements

17 RETIREMENT BENEFITS AND COMPENSATION (Continued)**(a) Pension – defined benefit plans** (Continued)

Amount recognised in the consolidated income statement:

	For the year ended December 31, 2017			For the year ended December 31, 2016		
	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000
Current service cost	672	–	672	668	–	668
Past service income	–	–	–	(49)	–	(49)
Interest cost	448	46	494	442	51	493
Administrative expenses	3	–	3	1	–	1
Total	1,123	46	1,169	1,062	51	1,113
<i>Included in:</i>						
Cost of sales	668	–	668	695	–	695
Engineering and product development costs	367	–	367	139	–	139
Selling and distribution costs	5	–	5	7	–	7
Administrative expenses	83	46	129	221	51	272
	1,123	46	1,169	1,062	51	1,113

Principal actuarial assumptions used were as follows:

	December 31, 2017		December 31, 2016	
	Non-US plans	US SERP	Non-US plans	US SERP
Discount rate	4.86%	2.85%	5.12%	2.94%
Salary increase rate	3.50%	N/A	3.47%	N/A
Price inflation rate	3.00%	N/A	3.02%	N/A
Pension increase rate	1.75%	N/A	1.75%	N/A

Notes to the Consolidated Financial Statements

17 RETIREMENT BENEFITS AND COMPENSATION (Continued)**(a) Pension – defined benefit plans** (Continued)

Balances of pension obligations derived from changes in the discount rate and salary increase rate as at the respective year ends were as follows:

	December 31, 2017			December 31, 2016		
	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000	Non-US plans US\$'000	US SERP US\$'000	Total US\$'000
1% increase in discount rate	10,084	1,534	11,618	8,722	1,585	10,307
1% decrease in discount rate	12,627	1,669	14,296	10,799	1,723	12,522
1% increase in salary increase rate	12,059	N/A	12,059	10,317	N/A	10,317
1% decrease in salary increase rate	10,511	N/A	10,511	9,049	N/A	9,049

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation the same actuarial method has been applied in arriving at the pension liability recognised in the consolidated balance sheet.

(b) Extended disability benefits

Costs associated with extended disability benefits provided to injured employees in the US are accrued throughout the duration of active employment. Workforce demographic data and historical experience are utilised to develop projections of time frames and related expenses for these post-employment benefits.

(c) Workers' compensation

The Group is self-insured up to a certain amount of workers' compensation claims for hourly workforce and accrues estimated costs for filed claims based upon an actuarially determined estimate. Workers' compensation liability includes benefits related to medical, dental and vision benefits.

18 PROVISIONS

	As at December 31, 2017			As at December 31, 2016		
	Current US\$'000	Non- current US\$'000	Total US\$'000	Current US\$'000	Non- current US\$'000	Total US\$'000
Restructuring	1,004	–	1,004	970	–	970
Litigation (note (a))	20	306	326	19	1,511	1,530
Environmental liabilities (note (b))	150	12,033	12,183	150	12,059	12,209
Warranties (note (c))	21,964	64,194	86,158	26,656	55,345	82,001
Decommissioning (note (d))	–	7,982	7,982	–	7,565	7,565
Other	–	–	–	1,500	–	1,500
	23,138	84,515	107,653	29,295	76,480	105,775

Notes to the Consolidated Financial Statements

18 PROVISIONS (Continued)

Movement of provisions is as follows:

	Restructuring US\$'000	Litigation (note (a)) US\$'000	Environmental liabilities (note (b)) US\$'000	Warranties (note (c)) US\$'000	Decom- missioning (note (d)) US\$'000	Other US\$'000	Total US\$'000
As at January 1, 2016	727	277	12,231	67,903	7,318	1,270	89,726
Additions (reversals)	293	1,618	(5)	30,334	281	29	32,550
Payments	–	(389)	(31)	(14,707)	–	–	(15,127)
Exchange differences	(50)	24	14	(1,529)	(34)	201	(1,374)
As at December 31, 2016	970	1,530	12,209	82,001	7,565	1,500	105,775
As at January 1, 2017	970	1,530	12,209	82,001	7,565	1,500	105,775
Additions (reversals)	(43)	683	1	19,842	354	(1,500)	19,337
Payments	–	(1,966)	(26)	(18,553)	–	–	(20,545)
Exchange differences	77	79	(1)	2,868	63	–	3,086
As at December 31, 2017	1,004	326	12,183	86,158	7,982	–	107,653

Notes:

(a) Litigation

The balance represents a provision primarily for certain labour claims brought against the Group. Litigation is subject to many uncertainties and the outcome of the individual litigated matters is not predictable with assurance. Based on currently available information, it is the opinion of management that the outcome of such matters will not have a material adverse impact on the Group.

(b) Environmental liabilities

A provision is recognised for remediation costs to be incurred for the restoration of the manufacturing sites upon the initial recognition of the related assets.

(c) Warranties

A provision is recognised for warranty costs associated with products sold to the customer principally at the time of sale or when it is determined that such obligations are probable and can be reasonably estimated.

(d) Decommissioning

This represents asset retirement obligations at certain of the Group's manufacturing sites.

19 DEFERRED REVENUE

The Group periodically receives upfront consideration from customers in connection with engineering, prototyping and pre-production programme-specific activities. These revenue amounts are deferred and recognised over the life of the related programme, which typically ranges between four and seven years. The carrying amount of deferred revenue is as follows:

	As at December 31, 2017			As at December 31, 2016		
	Current US\$'000	Non- current US\$'000	Total US\$'000	Current US\$'000	Non- current US\$'000	Total US\$'000
Pre-production activity	29,819	82,082	111,901	24,907	92,855	117,762

Notes to the Consolidated Financial Statements

19 DEFERRED REVENUE (Continued)

Movement of deferred revenue is as follows:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
As at January 1	117,762	117,126
Additions	19,379	24,128
Amortisation	(25,458)	(22,265)
Reversals	–	(1,006)
Exchange differences	218	(221)
As at December 31	111,901	117,762

20 TRADE PAYABLES

The ageing analysis of trade payables based on invoice date is as follows:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
0 to 30 days	292,502	382,752
31 to 60 days	209,771	159,932
61 to 90 days	48,782	40,623
91 to 120 days	22,183	14,719
Over 120 days	9,112	6,472
	582,350	604,498

21 OTHER PAYABLES AND ACCRUALS

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
Accrued expenses	127,776	106,402
Deposits from customers	3,735	1,555
Other taxes payable	3,964	6,907
Others	7,619	1,659
	143,094	116,523
Less: non-current portion	(4,727)	(9,161)
Current portion	138,367	107,362

Notes to the Consolidated Financial Statements

22 OTHER GAINS, NET

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Foreign exchange (losses) gains	(5,643)	8,268
Loss on disposal of property, plant and equipment	(1,517)	(431)
Fair value losses on derivative financial instruments	–	(1,542)
Others	11,365	738
	4,205	7,033

For the year ended December 31, 2016, foreign exchange (losses) gains included a gain of US\$15,478,000 associated with the settlement of an intercompany loan.

23 EXPENSE BY NATURE

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Raw materials used	2,257,760	2,252,478
Changes in inventories of finished goods and work-in-progress	(3,243)	(6,231)
Employee benefit costs (note 24)	542,178	566,287
Temporary labour costs	120,709	108,427
Restructuring costs (note 18)	(43)	293
Supplies and tools	194,587	192,189
Depreciation on property, plant and equipment (note 6)	100,939	93,649
Amortisation on		
– land use rights (note 7)	43	25
– intangible assets (note 8)	82,560	68,928
Impairment charges (reversal of provisions) on		
– inventories (note 10)	1,583	678
– receivables (note 11)	133	(396)
– intangible assets (note 8)	–	12,249
– property, plant and equipment (note 6)(i)	9,527	–
Operating lease expenses	16,060	14,386
Warranty expenses (note 18)	19,842	30,334
Auditors' remuneration		
– audit services	2,292	2,299
– non-audit services	1,278	1,421
Others	107,794	96,771
Total cost of sales, engineering and product development costs, selling and distribution, and administrative expenses	3,453,999	3,433,787

(i) Impairment on property, plant and equipment due to cancellation of customer programmes.

Notes to the Consolidated Financial Statements

24 EMPLOYEE BENEFIT COSTS

	For the year ended December 31,	
	2017	2016
	US\$'000	US\$'000
Salary expenses	391,863	386,421
Pension costs – defined contribution plans	24,859	24,768
Pension costs – defined benefit plans (note 17)	1,169	1,113
Other employee costs	124,287	153,985
	542,178	566,287

(a) Share-based payments

Pursuant to a shareholders' resolution passed on June 5, 2014, the Company adopted a share option scheme (**the Scheme**). The Scheme will remain in force for a period of 10 years commencing from June 5, 2014 and the period within which the option may be exercised must expire no later than 10 years from the relevant date of grant.

The subscription price for the shares under the option to be granted will be determined by the Board of Directors and will be the highest of: the closing price of the shares of the Company as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited on the date of grant; the average closing price of the shares of the Company as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares of the Company.

The options will be vested and become exercisable gradually after the grantees complete a period of service of 1 to 3 years from the date of grant and the Group achieving its performance targets.

On June 11, 2014, the Board of Directors approved an initial grant of share options under the Scheme, pursuant to which options to subscribe for 11,236,860 shares, representing approximately 0.4499% of the issued share capital of the Company as at the date of grant, were granted to 15 selected participants at the exercise price of HK\$5.150 per share.

On June 10, 2015, the Board of Directors approved a second grant of share options under the Scheme, pursuant to which options to subscribe for 10,358,990 shares, representing approximately 0.415% of the issued share capital of the Company as at the date of grant, were granted to 13 selected participants at the exercise price of HK\$8.610 per share.

On June 10, 2016, the Board of Directors approved a third grant of share options under the Scheme, pursuant to which options to subscribe for 10,602,490 shares, representing approximately 0.424% of the issued share capital of the Company as at the date of grant, were granted to 13 selected participants at the exercise price of HK\$7.584 per share.

On May 29, 2017, the Board of Directors approved a fourth grant of share options under the Scheme, pursuant to which options to subscribe for 11,919,310 shares, representing approximately 0.476% of the issued share capital of the Company as at the date of grant, were granted to 13 selected participants at the exercise price of HK\$11.620 per share.

Notes to the Consolidated Financial Statements

24 EMPLOYEE BENEFIT COSTS (Continued)**(a) Share-based payments** (Continued)

Movements in the number of share options outstanding and their average exercise prices are as follows:

	Average exercise price (per share) HK\$	Outstanding options (thousands)
As at January 1, 2016	6.898	16,505
Granted	7.584	10,602
Exercised	6.361	(3,346)
Forfeited	7.520	(5,970)
As at December 31, 2016	7.199	17,791
Exercisable as at December 31, 2016	6.292	4,878
As at January 1, 2017	7.199	17,791
Granted	11.620	11,919
Exercised	6.469	(2,798)
Expired	6.709	(702)
Forfeited	8.907	(4,565)
As at December 31, 2017	9.384	21,645
Exercisable as at December 31, 2017	6.893	6,549

Share options outstanding and not yet exercisable at the end of the period have the following vesting dates and exercise prices:

	Average exercise price (per share) HK\$	Outstanding options (thousands)
May 28, 2018	11.620	3,505
June 9, 2018	7.959	2,803
May 28, 2019	11.620	3,505
June 9, 2019	7.584	1,778
May 28, 2020	11.620	3,505

The weighted average fair value of options granted during the period determined using a binomial valuation model was HK\$4.440 per option. The significant inputs into the model were share price at the measurement date of HK\$11.620, exercise price of HK\$11.620, volatility of 37%, dividend yield of 1.5%, an expected term of 8.66 years, and an annual risk-free interest rate of 1.17%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of historical daily trading prices of the Company's shares since the date of listing (October 7, 2013) as well as the daily trading prices of benchmarked publicly traded companies in the same industry. Considering there is limited information on the historical share price of the Company, the Group referred to benchmarked companies' historical share price in addition to our share price history to determine the historical volatility.

Notes to the Consolidated Financial Statements

24 EMPLOYEE BENEFIT COSTS (Continued)**(a) Share-based payments** (Continued)

The fair value of the share options charged to the consolidated income statement was US\$1,561,000 for the year ended December 31, 2017 (year ended December 31, 2016: US\$2,456,000).

(b) Directors' emoluments

The remuneration of each director for the year ended December 31, 2017 is set out below:

	Fees (note (ix)) US\$'000	Salary US\$'000	Annual Incentive Compensation (note (ii)) US\$'000	Other benefits (note (iii)) US\$'000
Mr. ZHAO, Guibin*(i)	200	–	–	–
Mr. FAN, Yi (i)	–	220	69	57
Mr. RICHARDSON, Michael Paul (i)	–	565	473	123
Mr. WEI, Kevin Cheng	65	–	–	–
Mr. LIU, Jianjun	53	–	–	–
Mr. WANG, Xiaobo (xii)	40	–	–	–
Mr. TSANG, Hing Lun (xi)	33	–	–	–
Mr. YANG, Shengqun (xiii)	32	–	–	–
Mr. YICK, Wing Fat Simon (xiv)	25	–	–	–
Mr. LU, Daen (x)	10	–	–	–
	458	785	542	180

The remuneration of each director for the year ended December 31, 2016 is set out below:

	Fees (note (ix)) US\$'000	Salary US\$'000	Annual Incentive Compensation (note (ii)) US\$'000	Other benefits (note (iii)) US\$'000
Mr. ZHAO, Guibin*(i)	200	–	–	–
Mr. FAN, Yi (i)	–	220	74	52
Mr. RICHARDSON, Michael Paul (i)	–	760	364	144
Mr. TSANG, Hing Lun (xi)	65	–	–	–
Mr. WEI, Kevin Cheng	65	–	–	–
Mr. LIU, Jianjun	53	–	–	–
Mr. LU, Daen (x)	40	–	–	–
Mr. WANG, Xiaobo (xii)	40	–	–	–
	463	980	438	196

* Chief Executive Officer of the Company

Notes to the Consolidated Financial Statements

24 EMPLOYEE BENEFIT COSTS (Continued)**(b) Directors' emoluments (Continued)**

Notes:

- (i) Individual is a member of senior management.
- (ii) The annual incentive compensation plan is payable within one year from year end.
- (iii) Other benefits include payments made for dental, disability and healthcare coverage; contributions to social security and health-saving accounts; and other non-monetary benefits.
- (iv) During the year ended December 31, 2017, no retirement benefits by a defined benefit pension plan operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2016: Nil).
- (v) During the year ended December 31, 2017, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2016: Nil).
- (vi) During the year ended December 31, 2017, no consideration was provided to or receivable by third parties for making available director's services (2016: Nil).
- (vii) There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2016: Nil).
- (viii) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: Nil).
- (ix) Fees paid are in respect to service as a director, other emoluments are in respect of other services in connection with management of the Company or its subsidiaries.
- (x) Mr. LU, Daen resigned as our non-Executive Director with effect from March 14, 2017.
- (xi) Mr. TSANG, Hing Lun passed away on June 4, 2017.
- (xii) Mr. WANG, Xiaobo resigned as our non-Executive Director with effect from December 31, 2017.
- (xiii) Mr. YANG, Shengqun was appointed as our non-Executive Director with effect from March 14, 2017.
- (xiv) Mr. YICK, Wing Fat Simon was appointed as our non-Executive Director with effect from August 15, 2017.
- (xv) Deferred incentive compensation plans will be settled when all the conditions are met and with approval by the Board of Directors (certain of which with estimates based upon the extent of meeting certain performance targets). During the year ended December 31, 2017, the deferred incentive compensation of Mr. ZHAO, Guibin; Mr. FAN, Yi; Mr. RICHARDSON, Michael Paul; Mr. WANG, Xiaobo; Mr. YANG, Shengqun and Mr. LU, Daen were approximately US\$623,000, US\$247,000, US\$359,000, US\$13,000, US\$39,000 and US\$0, (2016: US\$582,000, US\$307,000, US\$152,000, US\$123,000, US\$0 and US\$123,000) respectively. The share-based payments of the share option scheme included in the deferred incentive compensation are calculated and disclosed in accordance with the method set out in note 24(a). These disclosed values deviate from the intrinsic value because the Company used the binomial model to calculate the fair value of the options granted on June 11, 2014, June 10, 2015, June 10, 2016 and May 29, 2017 amounting to HK\$2.710, HK\$3.920, HK\$3.320 and HK\$4.440 per option, respectively. When the actual share price is lower than the exercise price of HK\$5.150, HK\$8.610, HK\$7.584 and HK \$11.620 per share for options granted on June 11, 2014, June 10, 2015, June 10, 2016 and May 29, 2017, respectively the options are out-of-money and the holders will not be benefitted by exercising the options.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended December 31, 2017 include one director (2016: one), whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2016: four) individuals during the year are as follows:

	For the year ended December 31,	
	2017	2016
	US\$'000	US\$'000
Salaries and allowances	1,716	2,143
Annual and deferred incentive compensation	2,090	2,116
Other benefits	569	487
	4,375	4,746

Notes to the Consolidated Financial Statements

24 EMPLOYEE BENEFIT COSTS (Continued)**(c) Five highest paid individuals** (Continued)

The emoluments of the remaining individuals fell within the following bands:

	For the year ended December 31, 2017		2016
	Number of individuals		
HK\$6,000,000 – HK\$6,500,000 (US\$768,000 – US\$832,000)	1		1
HK\$6,500,000 – HK\$7,000,000 (US\$832,000 – US\$896,000)	1		–
HK\$7,500,000 – HK\$8,000,000 (US\$959,000 – US\$1,023,000)	–		1
HK\$8,000,000 – HK\$8,500,000 (US\$1,023,000 – US\$1,087,000)	–		1
HK\$9,500,000 – HK\$10,000,000 (US\$1,215,000 – US\$1,279,000)	1		–
HK\$10,500,000 – HK\$11,000,000 (US\$1,343,000 – US\$1,407,000)	1		–
HK\$14,000,000 – HK\$14,500,000 (US\$1,791,000 – US\$1,855,000)	–		1

25 FINANCE COSTS, NET

	For the year ended December 31, 2017		2016
	US\$'000		US\$'000
Finance income			
Interest on bank deposits	3,866		1,407
Finance costs			
Interest expense on bank borrowings	14,384		16,616
Interest on notes	14,687		14,688
	29,071		31,304
Interest on finance leases	238		170
Other finance costs	6,595		7,393
	35,904		38,867
Less: amount capitalised in qualifying assets (notes 6 and 8)	(10,690)		(7,292)
	25,214		31,575
Finance costs, net	21,348		30,168

Notes to the Consolidated Financial Statements

26 INCOME TAX EXPENSE

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Current income tax	32,538	73,241
Deferred income tax (note 9)	16,633	10,900
	49,171	84,141

Taxation on the Group's profits has been calculated on the estimated assessable profits for the years at the statutory rates of 35%, 25% and 19% in US, China and Poland, respectively, from where the Group's profits were mainly generated. Deferred taxes in the US have been remeasured at the statutory tax rate of 21% as at December 31, 2017; while the current taxes will be measured at the statutory rate of 21% beginning January 1, 2018.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the combined entities as follows:

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Profit before income tax	405,049	386,006
Tax calculated at rates applicable to profits in respective countries	125,197	122,115
Expenses not deductible for tax purposes	1,167	481
Non-taxable income	(28,405)	(22,641)
Tax credits (note (ii))	(12,076)	(10,577)
Preferential rates and tax holidays (note (iii))	(16,430)	(13,696)
Tax losses and deductible temporary differences for which no deferred tax was recognised	2,192	2,493
US state and withholding taxes	13,497	6,062
Others	3,013	(96)
Deferred taxes remeasurement due to US tax reform (note (iii))	(38,984)	—
Tax charge	49,171	84,141

Note:

- (i) Mainly represents production and research incentives.
- (ii) Derived mainly from profits subject to preferential tax rate in China for high-technology enterprises and income tax exemption through 2026 for the Group's investment in Special Economic Zones in Poland according to the relevant Polish tax rules.
- (iii) On December 22, 2017, President Donald Trump signed into law "H.R.1", formerly known as the "Tax Cuts and Jobs Act", which among other items reduces the US federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result, the Company has remeasured its deferred tax assets and liabilities as at December 31, 2017, which is the period of substantive enactment of the legislation. The Company's deferred tax assets and liabilities generally represent a decrease or an increase, respectively, in corporate income taxes expected to be paid in the future. The impact to the Company is that the net deferred tax liabilities were revalued downward, with a corresponding deferred income tax benefit of approximately US\$39.0 million.

Notes to the Consolidated Financial Statements

27 EARNINGS PER SHARE**(a) Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	For the year ended December 31,	
	2017	2016
Profit attributable to the equity holders of the Company (US\$'000)	351,769	294,723
Weighted average number of ordinary shares in issue (thousands)	2,502,980	2,499,534
Basic earnings per share (in US\$)	0.14	0.12

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise of shares issued under the Scheme that are vested as at December 31, 2017. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year ended December 31, 2017) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares within the denominator for calculating diluted earnings per share. For the year ended December 31, 2017 and 2016, the details are within the table below.

	For the year ended December 31,	
	2017	2016
Profit attributable to equity holders of the Company, used to determine diluted earnings per share (US\$'000)	351,769	294,723
Weighted average number of ordinary shares in issue (thousands)	2,502,980	2,499,534
Adjustment for share options (thousands)	6,369	4,282
Weighted average number of ordinary shares in issue for calculating diluted earnings per share (thousands)	2,509,349	2,503,816
Diluted earnings per share (in US\$)	0.14	0.12

Notes to the Consolidated Financial Statements

28 DIVIDENDS

	For the year ended December 31,	
	2017	2016
	US\$'000	US\$'000
Dividend proposed of US\$0.028 (2016: US\$0.024) per share	70,354	58,945

This dividend was proposed by the directors at a meeting held on March 13, 2018, the date of approval of these Consolidated Financial Statements, which is not reflected as a dividend payable in these Consolidated Financial Statements.

29 CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Cash generated from operations

	For the year ended December 31,	
	2017	2016
	US\$'000	US\$'000
Profit before income tax	405,049	386,006
Adjustments for:		
Finance costs	25,214	31,575
Depreciation on property, plant and equipment	100,939	93,649
Impairment of property, plant and equipment (i)	9,527	-
Amortisation on land use rights and intangible assets	82,603	68,953
Amortisation of deferred revenue	(25,458)	(22,265)
Impairment charges on inventories and receivables	998	415
Impairment charges on intangible assets	-	12,249
Exchange differences	-	(15,478)
Fair value loss on derivative financial instruments	-	1,542
Share of loss (income) of joint ventures	1,818	(684)
Share-based compensation	1,561	2,456
Loss on disposal of property, plant and equipment	1,517	431
	603,768	558,849
Changes in working capital:		
Increase in receivables	(11,080)	(43,321)
Decrease (Increase) in inventories	26,991	(13,308)
Increase in payables and accruals	22,217	34,033
(Decrease) increase in provisions	(1,209)	17,423
(Decrease) increase in retirement benefits and compensations	(1,899)	980
Increase in deferred revenue	19,379	23,100
Cash generated from operations	658,167	577,756

(i) Impairment on property, plant and equipment due to cancellation of customer programmes, see note 6.

Notes to the Consolidated Financial Statements

29 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**(a) Cash generated from operations** (Continued)*Major non-cash transactions*

During the year ended December 31, 2017, the Group purchased property, plant and equipment, which were recorded in payables in the amounts of US\$41,981,000 (2016: US\$85,237,000).

During the year ended December 31, 2017, the Group settled trade payables to suppliers with bank notes received from customers to settle trade receivables in the amount of US\$31,163,000 (2016: US\$55,458,000). These transactions were specific to China.

(b) Net borrowings reconciliation

Movements in net borrowings for the year ended December 31, 2017 are as follows:

	Borrowings due within a year US\$'000	Borrowings due after a year US\$'000	Total US\$'000
As at December 31, 2016	75,488	488,659	564,147
Cash flows	(77,640)	1,196	(76,444)
Foreign exchange adjustments	550	1,485	2,035
Other non-cash movements	78,638	(77,195)	1,443
As at December 31, 2017	77,036	414,145	491,181

30 COMMITMENTS**(a) Capital commitments**

The Group has capital commitments of US\$142,543,000 as at December 31, 2017 to purchase property, plant and equipment, which are contracted but not provided for (December 31, 2016: US\$185,137,000).

(b) Operating lease commitments

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,	
	2017 US\$'000	2016 US\$'000
Up to 1 year	12,849	12,743
1 to 5 years	39,668	25,401
Over 5 years	23,106	9,745
	75,623	47,889

31 RELATED PARTY TRANSACTIONS**(a) Transactions with Yubei Steering System Co., Ltd. (Yubei Steering), an associate of AVIC**

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Purchase of goods	6,609	14,952

Notes to the Consolidated Financial Statements

31 RELATED PARTY TRANSACTIONS (Continued)**(b) Transactions with joint ventures**

Nexteer (China) Holding Co., Ltd. (**Nexteer China Holding**) (a direct, wholly-owned subsidiary of the Company) holds a 50% ownership interest in a joint venture, Chongqing Nexteer Steering Systems Co., Ltd. (**Chongqing Nexteer**) in Chongqing, China. The joint venture was formed to manufacture and sell steering parts, and the remaining 50% interest is held by Chongqing Jianshe Industry (Group) Co., Ltd.

In March 2017, Nexteer China Holding signed a joint venture agreement with Dongfeng Motor Parts and Components (Group) Co., Ltd. to form Dongfeng Nexteer Steering Systems (Wuhan) Co., Ltd. (**Dongfeng Nexteer**). Located in Wuhan, China, the joint venture, equally owned by both parties, will design and manufacture EPS systems for Dongfeng Motor Group Co., Ltd. and its affiliated companies.

In January 2017, Nexteer Automotive Corporation (an indirect, wholly-owned subsidiary of the Company) agreed to form a joint venture with Continental Automotive Systems, Inc. Located in Grand Blanc Michigan, US, the joint venture, CNXMotion, LLC (**CNXMotion**), is focused on integrating lateral and longitudinal control for mixed mode and automated driving applications.

As at December 31, 2017 the Group's carrying amount of its investment in joint ventures is US\$11,021,000 including US\$10,667,000, US\$354,000 and US\$nil related to Chongqing Nexteer, Dongfeng Nexteer and CNXMotion, respectively, (December 31, 2016: US\$10,586,000, US\$nil, US\$nil). For the year ended December 31, 2017, the Group's share of (losses) income from its joint ventures amount to (US\$1,818,000), including US\$83,000, (US\$407,000), and (US\$1,494,000) related to Chongqing Nexteer, Dongfeng Nexteer and CNXMotion, respectively, (year ended December 31, 2016: US\$684,000, US\$nil, US\$nil).

The following table sets forth the transactions between the Group and its joint ventures.

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Sale of product and services (i)	26,696	36,489
Purchase of services	8,520	9,344

(i) Services include engineering services, rent and other fees.

(c) Key management compensation

The remunerations of the Chief Executive Officer, directors and other key management members were as follows:

	For the year ended December 31,	
	2017 US\$'000	2016 US\$'000
Basic salaries, other allowances and benefits	5,475	5,205
Bonuses	5,236	5,146
Others	934	596
	11,645	10,947

These remunerations are determined based on the performance of individuals and market trends.

Notes to the Consolidated Financial Statements

32 BALANCE SHEET OF THE COMPANY

The balance sheet of the Company on a non-consolidated basis is as follows:

	As at December 31,	
	2017	2016
	US\$'000	US\$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	708,377	682,771
Other receivables and prepayments	144,611	149,631
	852,988	832,402
Current assets		
Other receivables and prepayments	48,798	71,805
Cash and cash equivalents	67	11,350
	48,865	83,155
Total assets	901,853	915,557
EQUITY		
Capital and reserves		
Share capital	32,310	32,274
Other reserves	618,695	672,459
Accumulated losses	(8,804)	(38,667)
Total equity	642,201	666,066
Non-current liabilities		
Borrowings	247,940	247,224
Deferred income tax liabilities	4,534	—
	252,474	247,224
Current liabilities		
Other payables and accruals	7,178	2,267
Total equity and liabilities	901,853	915,557

The balance sheet of the Company was approved by the Board of Directors on March 13, 2018 and was signed on its behalf.

Fan, Yi

Director

Richardson, Michael Paul

Director

Notes to the Consolidated Financial Statements

32 BALANCE SHEET OF THE COMPANY (Continued)

The movement in reserves of the Company on a non-consolidated basis is as follows:

	Share premium US\$'000	Share-based compensation reserve US\$'000	Capital reserve US\$'000	Accumulated losses US\$'000	Total reserves US\$'000
As at January 1, 2016	199,080	3,736	504,400	(20,752)	686,464
Loss for the year	–	–	–	(17,915)	(17,915)
Value of employee services provided under share-option scheme (note 24(a))	–	2,456	–	–	2,456
Transfer to share premium under exercise of share options	1,330	(1,330)	–	–	–
Dividends paid to shareholders	(39,913)	–	–	–	(39,913)
Exercise of share options	2,700	–	–	–	2,700
As at December 31, 2016	163,197	4,862	504,400	(38,667)	633,792
Gain for the year	–	–	–	29,863	29,863
Value of employee services provided under share-option scheme (note 24(a))	–	3,806	–	–	3,806
Transfer to share premium under exercise of share options	1,120	(1,120)	–	–	–
Dividends paid to shareholders	(59,856)	–	–	–	(59,856)
Exercise of share options	2,286	–	–	–	2,286
As at December 31, 2017	106,747	7,548	504,400	(8,804)	609,891

Notes to the Consolidated Financial Statements

33 SHARE CAPITAL

	Number of ordinary shares	Amount
<i>Issued and fully paid:</i>		
HK\$0.10 each as at January 1, 2016	2,498,477,040	HK\$249,847,704
Exercise of share options	3,345,633	HK\$334,563
HK\$0.10 each as at December 31, 2016	2,501,822,673	HK\$250,182,267
Exercise of share options	2,798,410	HK\$279,841
HK\$0.10 each as at December 31, 2017	2,504,621,083	HK\$250,462,108

34 SUBSEQUENT EVENT

On February 16, 2018, the Company repaid the remaining balance of US\$42,857,000 of one of its US based term loans. The Company recognised a loss of US\$289,000 related to the repayment. With the repayment of the term loan, the Company simultaneously refinanced its US based revolving line of credit, extending its borrowing capacity to US\$325,000,000, securing less restrictive covenants and collateral requirements and extending maturity to 2023.

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

	Place of operation, incorporation and date of incorporation	Issued and paid up capital	Attributable equity interest	Principal activities
Subsidiaries				
<i>Directly held:</i>				
Nexteer (China) Holding Co., Ltd.	China June 16, 2014	US\$30,000,000	100%	Investment holding
Nexteer UK Holding Ltd.	United Kingdom February 5, 2015	US\$104,120,152	100%	Investment holding
PCM (Singapore) Steering Holding Pte. Limited	Singapore November 4, 2010	US\$176,000,000 and SGD 1	100%	Investment holding

Notes to the Consolidated Financial Statements

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (Continued)

	Place of operation, incorporation and date of incorporation	Issued and paid up capital	Attributable equity interest	Principal activities
<i>Indirectly held:</i>				
Nexteer Automotive (Suzhou) Co., Ltd.	China January 24, 2007	US\$32,800,000	100%	Manufacturing of steering components
Nexteer Automotive Australia Pty Ltd	Australia January 23, 2008	AUD\$2,849,108	100%	Manufacturing of steering components
Nexteer Automotive Corporation	Delaware, US January 2, 2008	US\$1	100%	Manufacturing of steering components
Nexteer Automotive France SAS	France March 25, 2008	EUR 1,287,000	100%	Customer support, engineering centre
Nexteer Automotive Germany GmbH	Germany January 2, 2008	EUR 25,000	100%	Customer support, engineering centre
Nexteer Automotive India Private Limited	India February 25, 2008	INR 207,917,940	100%	Manufacturing of steering components
Nexteer Automotive Italy S.r.l.	Italy January 30, 2008	EUR 10,000	100%	Customer support, engineering centre
Nexteer Automotive Japan LLC	Japan February 21, 2008	JPY 1	100%	Customer support, engineering centre
Nexteer Automotive Korea Limited	Korea February 28, 2008	KRW 6,400,000,000	100%	Customer support, engineering centre
Nexteer Automotive Luxembourg S.à r.l.	Luxembourg November 5, 2013	US\$20,000	100%	Investment Holding
Nexteer Automotive Mexico S. de R.L. de C.V.	Mexico June 10, 2014	MXN 129,912	100%	Distribution company
Nexteer Automotive Morocco S.à r.l.	Morocco October 12, 2017	EUR 7,669,300	100%	Manufacturing of steering components
Nexteer Automotive Poland sp.zo.o.	Poland January 2, 1997	PLN 20,923,750	100%	Manufacturing of steering components

Notes to the Consolidated Financial Statements

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (Continued)

	Place of operation, incorporation and date of incorporation	Issued and paid up capital	Attributable equity interest	Principal activities
Nexteer Automotive Systems (Liuzhou) Co., Ltd.	China January 8, 2015	US\$10,000,000	100%	Manufacturing of steering components
Nexteer Industria e Comercio de Sistemas Automotivos Ltda.	Brazil February 22, 2007	BRL 311,423,316	100%	Manufacturing of steering components
Nexteer Lingyun Driveline (Wuhu) Co., Ltd.	China December 22, 2006	US\$22,400,000	60%	Manufacturing of steering components
Nexteer Lingyun Driveline (Zhuozhou) Co., Ltd.	China October 6, 1995	US\$22,000,000	60%	Manufacturing of steering components
Nexteer Luxembourg Holding IV S.à r.l.	Luxembourg March 18, 2015	US\$500,001	100%	Investment holding
Nexteer Luxembourg Holding V S.à r.l.	Luxembourg March 20, 2015	US\$100,001	100%	Investment holding
Nexteer Otomotiv Sanayi ve Ticaret Limited Sirketi	Turkey March 28, 2008	TRY 1,105,000	100%	Manufacturing of steering components
Nexteer Poland Holding sp. z o.o.	Poland December 23, 2010	PLN 3,763,088,400	100%	Investment holding
Nexteer US Holding I LLC	Delaware, US May 18, 2007	–	100%	Investment holding
PCM US Steering Holding LLC	Delaware, US March 9, 2009	–	100%	Investment holding
PT Nexteer Automotive Indonesia	Indonesia March 23, 2016	US\$1,600,000	100%	Manufacturing of steering components
Rhodes Holding I S.à r.l.	Luxembourg January 15, 2008	EUR 22,500	100%	Investment holding
Rhodes Holding II S.à r.l.	Luxembourg January 15, 2008	EUR 4,331,151	100%	Investment holding

Notes to the Consolidated Financial Statements

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (Continued)

	Place of operation, incorporation and date of incorporation	Issued and paid up capital	Attributable equity interest	Principal activities
Rhodes I LLC	Michigan, US November 7, 2007	–	100%	Investment holding
Rhodes II LLC	Michigan, US November 7, 2007	–	100%	Investment holding
Steering Holding Pte. Ltd.	Singapore February 15, 2008	US\$6,400,000 and EUR 1	100%	Investment holding
Steering Solutions Corporation	Delaware, US October 29, 2007	US\$1	100%	Investment holding
Steering Solutions Expat Holding Corporation	Delaware, US January 2, 2008	US\$1	100%	Investment holding
Steering Solutions IP Holding Corporation	Delaware, US January 2, 2008	US\$1	100%	Investment holding
Steeringmex S. de R.L. de C.V.	Mexico December 14, 2007	MXN 100,292,971	100%	Manufacturing of steering components
<i>Joint ventures:</i>				
Chongqing Nexteer Steering Systems Co., Ltd.	China January 22, 2014	RMB120,000,000	50%	Manufacturing of steering components
CNXMotion, LLC	Delaware, US July 18, 2017	–	50%	Research and development centre
Dongfeng Nexteer Steering Systems (Wuhan) Co., Ltd.	China October 23, 2017	RMB150,000,000	50%	Manufacturing of steering components

Five Years' Financial Summary

	2017 US\$'000	For the year ended December 31,			
		2016 US\$'000	2015 US\$'000	2014 US\$'000	2013 US\$'000
RESULTS					
Revenue	3,878,009	3,842,244	3,360,512	2,978,068	2,386,823
Profit before income tax	405,049	386,006	283,364	214,596	151,258
Income tax expense	(49,171)	(84,141)	(73,216)	(51,339)	(40,337)
Profit for the year	355,878	301,865	210,148	163,257	110,921
Profit attributable to:					
Equity holders of the Company	351,769	294,723	205,432	161,398	109,191
Non-controlling interests	4,109	7,142	4,716	1,859	1,730
	355,878	301,865	210,148	163,257	110,921
Earnings per share, USD					
Basic and diluted	0.14	0.12	0.08	0.06	0.06
ASSETS AND LIABILITIES					
Total assets	2,979,383	2,693,368	2,456,822	2,221,972	1,805,189
Total liabilities	(1,538,668)	(1,602,345)	(1,602,457)	(1,513,953)	(1,214,443)
Total equity	1,440,715	1,091,023	854,365	708,019	590,746
Capital and reserves attributable to equity holders of the Company	1,402,411	1,058,991	827,422	683,619	567,703
Non-controlling interests	38,304	32,032	26,943	24,400	23,043
	1,440,715	1,091,023	854,365	708,019	590,746