



2019 ANNUAL REPORT

NEXTEER AUTOMOTIVE GROUP LIMITED

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

耐世特汽車系統集團有限公司

STOCK CODE : 1316



A LEADER IN
INTUITIVE MOTION
CONTROL

nexteer
AUTOMOTIVE

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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, as well as advanced driver assistance systems (**ADAS**) and automated driving (**AD**) 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 continued focus and drive is to leverage our design, development and manufacturing strengths in advanced steering and driveline systems that provide differentiated and value-added solutions to our customers. We develop solutions that enable a new era of safety and performance for traditional and varying levels of ADAS/AD. Overall, we are making driving safer, more fuel-efficient and fun for today's world and an automated future.

Our ability to seamlessly integrate our systems into automotive original equipment manufacturers' (**OEM**) vehicles is a testament to our more than 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 Company: people, operational excellence and enterprise growth.

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

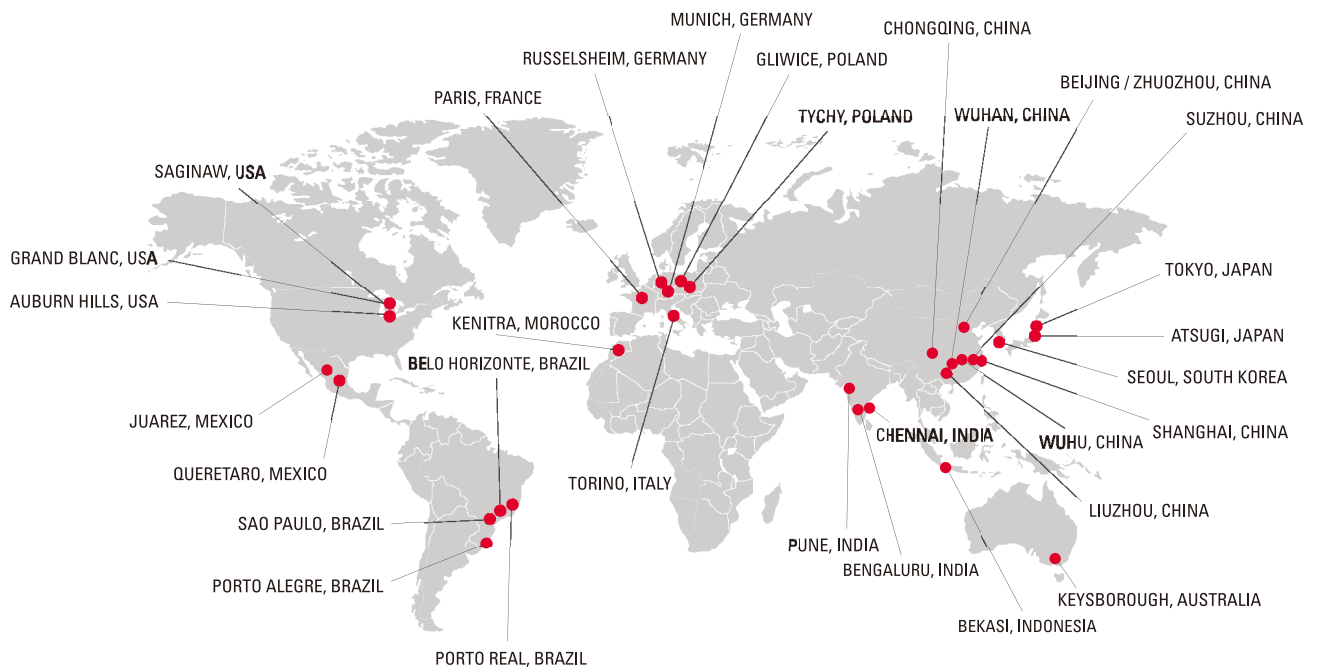
Nexteer provides real-world, vehicle-level solutions by being:

- **Customer Focused:** Respected and trusted for delivering on commitments
- **Proactive:** We listen carefully to understand customer needs, requirements and aspirations
- **Innovative:** A market leader in steering and driveline system innovation and value-added service
- **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 & CUSTOMERS



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

Manufacturing Plants: 28, including 2 non-consolidated joint ventures (**JV**)

Technical & Software Centres: 4

Customer Service Centres: 14

Global Customers: 60+, including BMW Group (**BMW**), Changan Automotive (Group) Co., Ltd. (**Changan**), Dongfeng Peugeot Citroën Automobile Co., Ltd. (**DPCA**), Fiat Chrysler Automobiles N.V. (**FCA**), Ford Motor Company (**Ford**), General Motors Company and Subsidiaries (**GM**), Groupe PSA, Maruti Suzuki India Limited (**Maruti-Suzuki**), Renault-Nissan-Mitsubishi Alliance (**RNM**), SAIC General Motors Co., Ltd. (**Shanghai GM**), SAICGM-Wuling Automobile Co., Ltd. (**SGMW**), Toyota Motor Corporation (**Toyota**) 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)

(Chief Executive Officer and Vice Chairman)

(became Vice Chairman and no longer served as Chairman with effect from June 3, 2019)

RICHARDSON, Michael Paul (President)

(retired with effect from January 1, 2020)

FAN, Yi (樊毅)

Non-Executive Directors

WANG, Jian (王堅) (Chairman)

(appointed with effect from June 3, 2019)

ZHANG, Jianxun (張建勛)

LIU, Ping (劉平)

(appointed with effect from June 3, 2019)

YANG, Shengqun (楊勝群)

(retired with effect from June 3, 2019)

Independent Non-Executive Directors

LIU, Jianjun (劉健君)

WEI, Kevin Cheng (蔚成)

YICK, Wing Fat Simon (易永發)

COMPANY SECRETARY

FAN, Yi (樊毅)

AUTHORISED REPRESENTATIVES

ZHAO, Guibin (趙桂斌)

FAN, Yi (樊毅)

LEGAL ADVISERS

As to Hong Kong Law

DLA Piper Hong Kong

As to Cayman Islands Law

Maples and Calder

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants and Registered PIE Auditor

AUDIT AND COMPLIANCE COMMITTEE

WEI, Kevin Cheng (蔚成) (Chairman)

YICK, Wing Fat Simon (易永發)

LIU, Ping (劉平)

(appointed with effect from June 3, 2019)

YANG, Shengqun (楊勝群)

(retired with effect from June 3, 2019)

REMUNERATION AND NOMINATION COMMITTEE

YICK, Wing Fat Simon (易永發) (Chairman)

LIU, Jianjun (劉健君)

ZHANG, Jianxun (張建勛)

HEADQUARTERS

1272 Doris Road

Auburn Hills, Michigan 48326, USA



Corporate Information

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/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

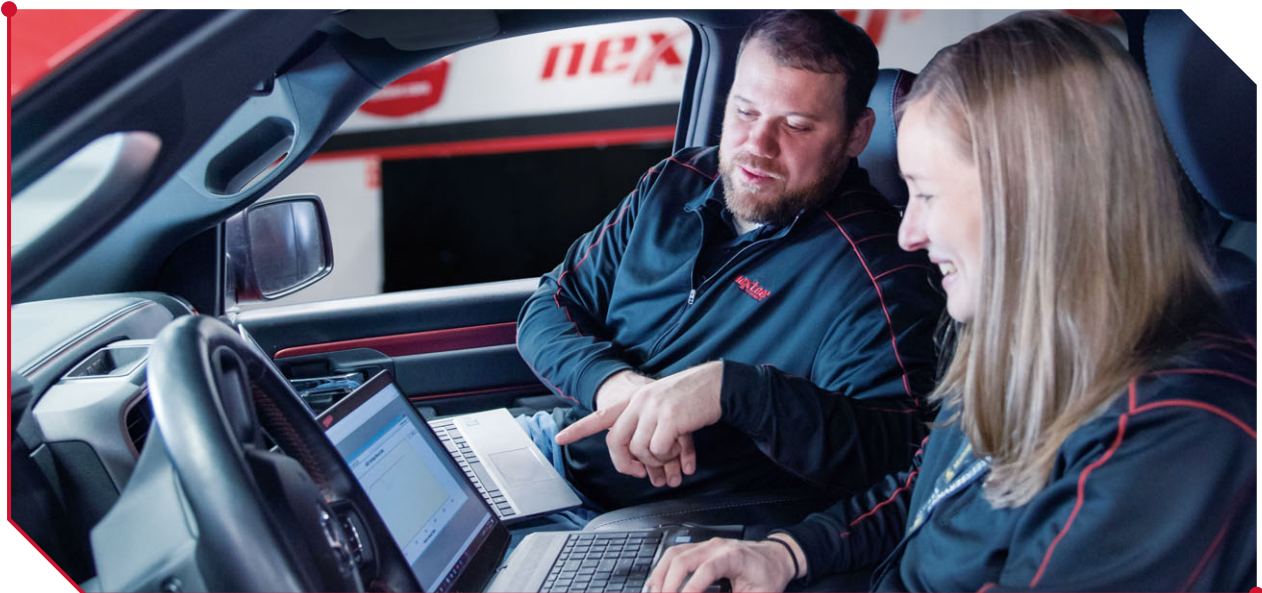
STOCK CODES

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)

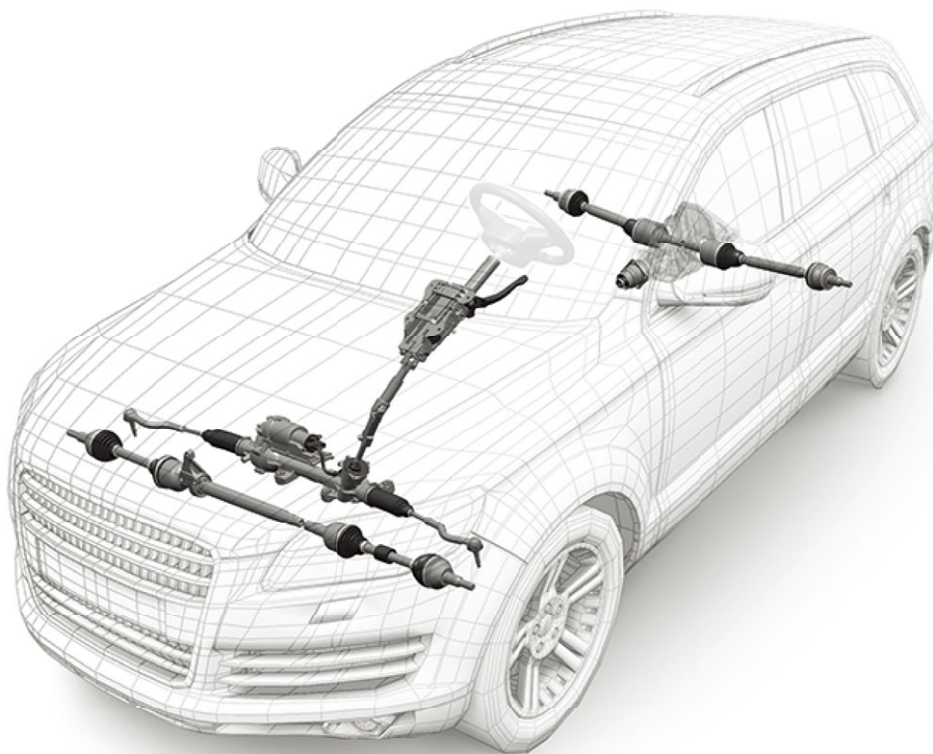
COMPANY WEBSITE

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



Our Products

OUR PRODUCTS



ELECTRIC
POWER
STEERING

COLUMNS &
INTERMEDIATE
SHAFTS

DRIVELINE
SYSTEMS

HYDRAULIC
POWER
STEERING

ASSISTED
& AUTOMATED
DRIVING
ENABLERS

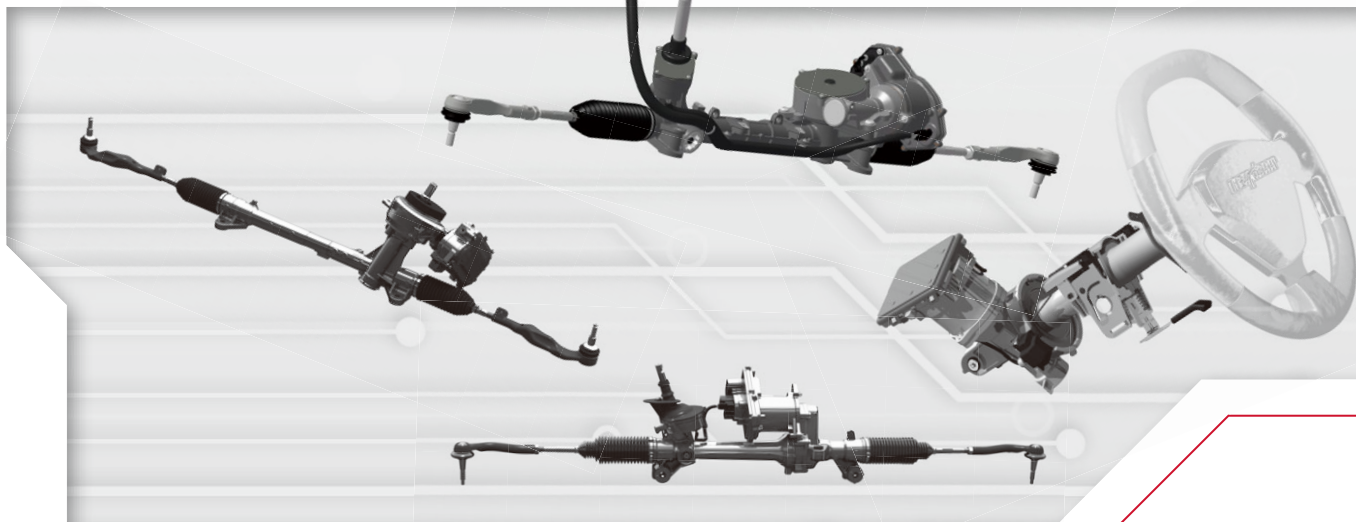
We design, develop, manufacture and distribute steering and driveline systems and components, primarily for automotive OEMs.

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

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

Our Products

ELECTRIC POWER STEERING (EPS)



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 – accounting for 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.), while also giving important safety cues regarding the road surface the driver is traveling on (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. Many Nexteer EPS-enabled ADAS features are already on the road today such as park assist, lane keeping, lane departure warning, traffic jam assist 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 a cost

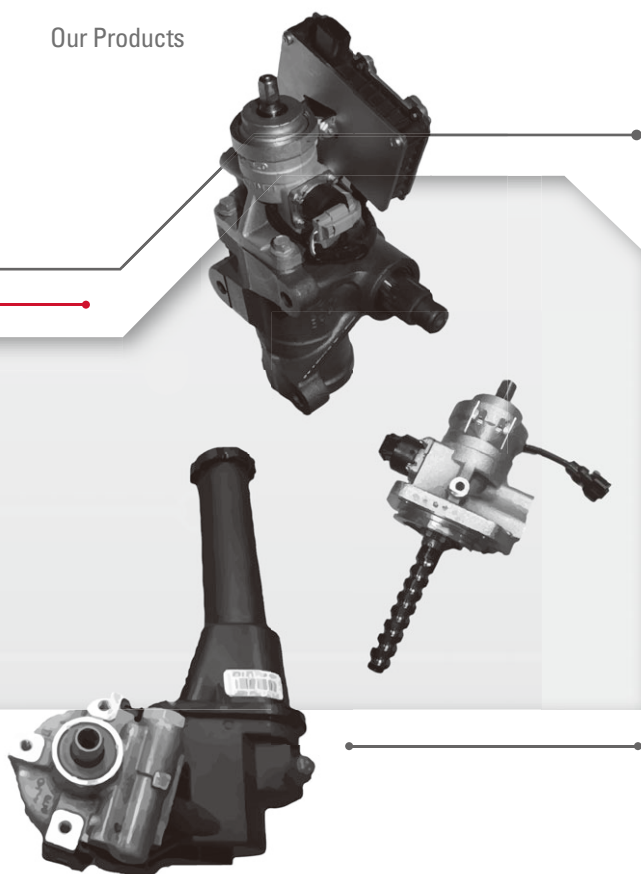
competitive brush motor column-assist EPS (**BEPS**) specifically tailored for developing markets. OEM customers that use our BEPS include: SGMW for the Wuling Hongguang S/S3 minivan, Bao Jun 730 MPV and Bao Jun 510/560 SUV; and Changan for the Oushang MPV, CS15 and CS70 SUV.

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. We have a market-leading position in North America with OEM customers such as: Ford in the F-150 pickup truck; FCA in the light-duty Ram 1500 pickup truck; and GM in various light-duty trucks and SUVs. We also supply our REPS in performance vehicles, including the Ford Mustang, Dodge Charger and Dodge Challenger.

Pinion-assist EPS expands application range and flexibility. Single pinion-assist EPS (**SPEPS**) integrates the electric assist mechanism with the steering gear pinion shaft. OEM customers who use our SPEPS include: BMW in the 1 Series, 2 Series, X1 and Mini; Groupe PSA in the Citroën C3 and DS3; and DPCA in the Citroën C-Elysee.

Dual Pinion EPS (**DPEPS**) allows for the primary pinion to be optimised for vehicle dynamics and performance and a secondary pinion to be optimised for assist. During 2019, we received our first DPEPS programme award in Europe.

Our Products

**HYDRAULIC POWER STEERING (HPS)**

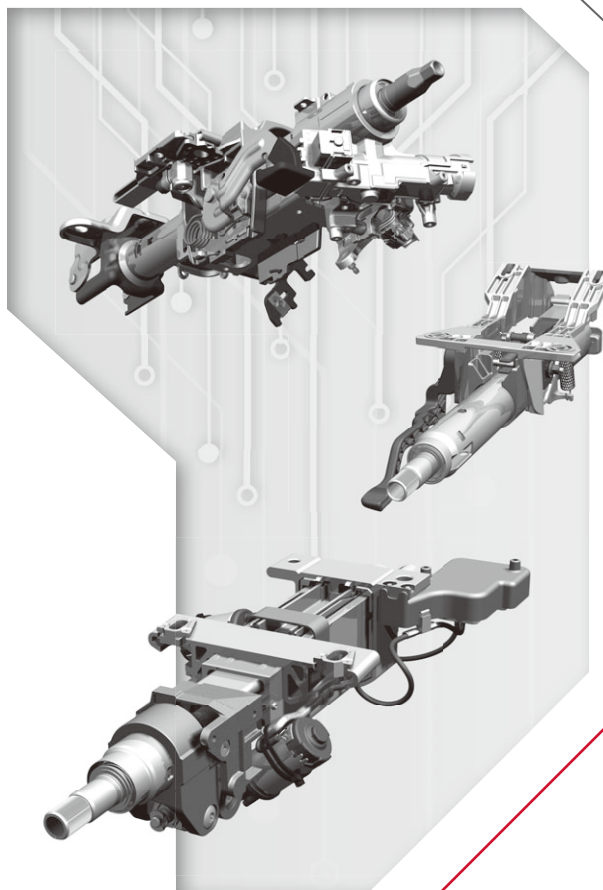
HPS uses high pressure fluids to assist driver steering. An engine-driven power steering pump creates system pressure. Pressurised fluid is then routed into a steering gear cylinder that turns the wheels of the vehicle. OEM customers that use our steering gears include: GM in its three-quarter ton trucks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

In North America, Nexteer produces two premium hydraulic based products: Magnetic Torque Overlay (**MTO**) and Smart Flow pump. These products bring advanced driver assistance functionality with reduced power consumption benefits. The MTO steering gear actuator targets 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.

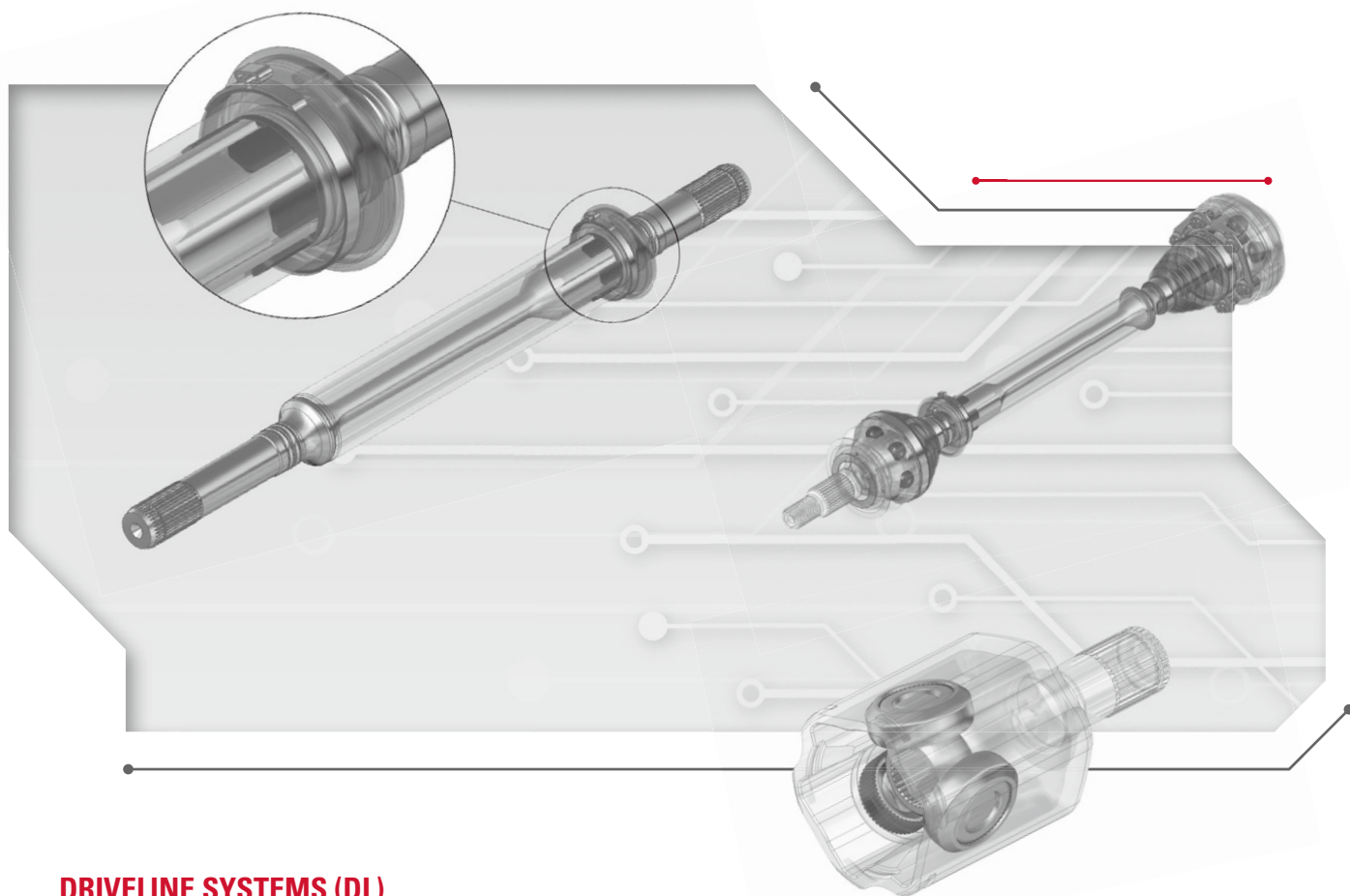
STEERING COLUMNS AND INTERMEDIATE SHAFTS (CIS)

CIS connect the steering wheel to the steering mechanism, to control lateral motion 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 crash protection.

We design these products for small cars, SUVs and trucks. OEM customers that use Nexteer steering columns and intermediate shafts include: GM in full-size SUVs, vans, mid-size trucks and cars (e.g., the Cadillac CT4, CT5, XTS and Chevrolet Impala, Camaro, Corvette); Ford on full-size trucks (F150 and Super Duty), full-size SUVs (Lincoln Navigator), vans, mid-size trucks (Ranger), mid-size SUV (Explorer); FCA on Ram full-size trucks, Promaster City, the Jeep Wrangler, Gladiator as well as the Chrysler Pacifica; plus Toyota on full-size trucks (Tundra) and full-size SUVs (Sequoia).

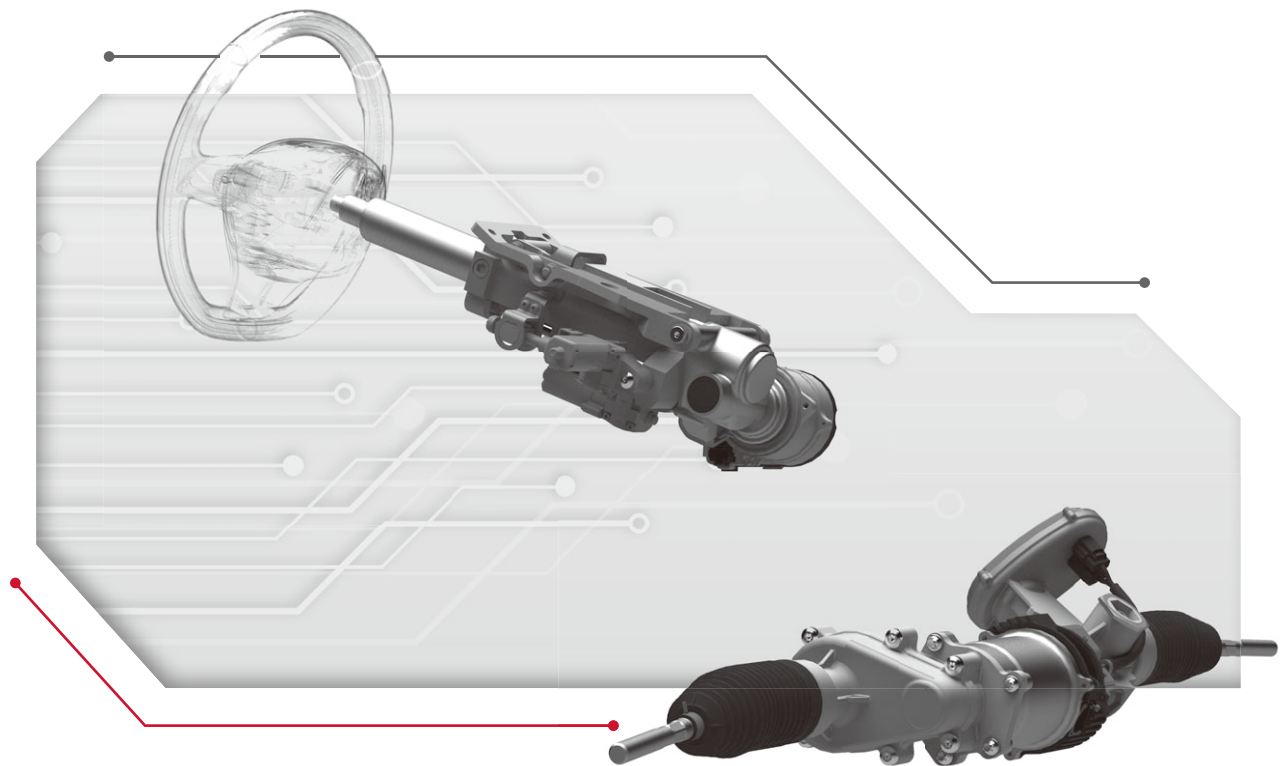


Our Products

**DRIVELINE SYSTEMS (DL)**

Our halfshafts are designed for a variety of vehicles and are custom engineered to meet specific vehicle requirements, transmitting torque from the engine to roadwheels. Our systems enhance vehicle handling and eliminate driveline disturbances on front-wheel and all-wheel drive vehicles. Consequently, Nexteer's halfshafts enhance a driver's comfort and control. Achieving best-in-class comfort and control – especially in terms of DL Noise, Vibration and Harshness (**NVH**) – becomes even more challenging with Electric Vehicles that are extremely quiet. In turn, Nexteer DL solves for these increased NVH requirements with premium, high-efficiency outboard joints, ball spline axles and lower mass components. OEM customers that use our halfshafts include: FCA, GM, Groupe PSA, RNM, VW and a number of China and India domestic OEMs.

Our Products



ENABLING TECHNOLOGIES OF ADAS AND AUTOMATED DRIVING (AD)

Through Nexteer's comprehensive suite of advanced steering technology, we are enabling a new era of safety and performance for today's world and an increasingly automated future. These industry-leading innovations can each stand on their own merit, but the real game-changer is the integration of these advanced technologies into tailored motion control solutions. Our advanced steering technology suite supports Society of Automotive Engineers (SAE) ADAS Levels 1–5.

Steer-by-Wire (SbW): As the centre link of this suite, our SbW unlocks new benefits for drivers and OEMs including new possibilities for advanced safety features, packaging flexibility and reuse of components. SbW supports traditional and varying levels of automated driving and is an OEM preferred enabler of Automatic Emergency Steering (AES) technology.

With SbW, the mechanical connection between the road wheels and the steering wheel is replaced with electronics and actuators on the steering column and rack. 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.

High Availability EPS: Our award-winning High Availability EPS system ensures the steering safety net is always on through intelligently optimised software designed for simultaneous, multi-path processing and hardware redundancies in torque and position sensors, ECUs, motor windings as well as dual sets of vehicle power and communication connectors. These systems are capable of <10 failure in time (FIT) reliability ratings (FIT is measured per one billion hours of use).

Quiet Wheel™ Steering: Enabled by SbW, Quiet Wheel™ Steering allows the steering wheel to remain still during AD 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.

Our Products

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

Stowable Steering Column: Vehicles equipped with Quiet Wheel™ Steering may also be fitted with a stowable steering column that retracts when hands-off AD is engaged, increasing available space for driver comfort and other activities.

Steering on Demand™ System (SoD): SoD enables the safe, intuitive transitions of steering control between traditional driving and AD in vehicles capable of SAE ADAS Levels 3 and above.

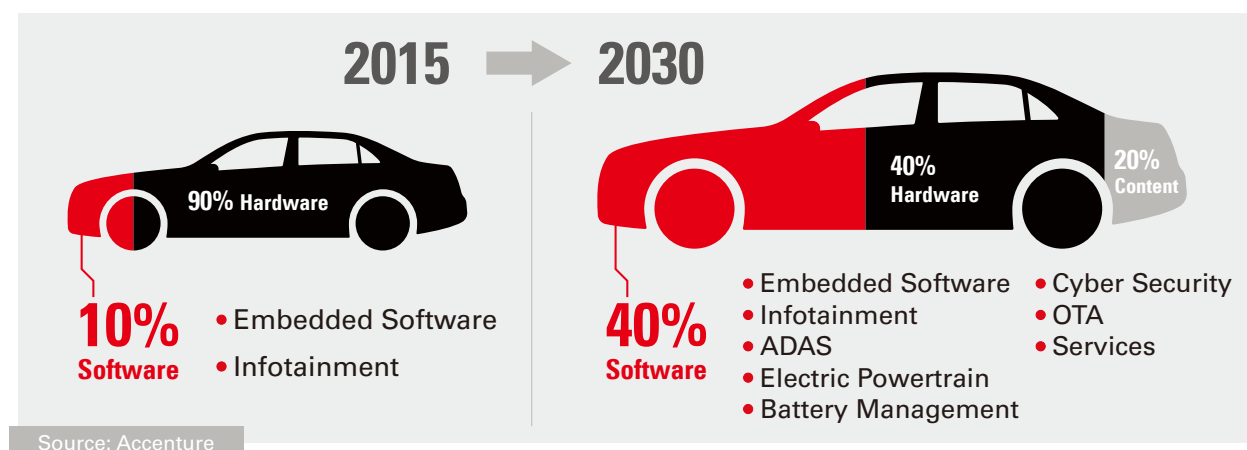
EPS as Key ADAS Enabler: EPS converts data from the vehicle's centred ECU into mechanical steering functions. Typical EPS-enabled ADAS features include: lane keeping, park assist, traffic jam assist and lane departure warning.

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.

MTO: Our MTO delivers ADAS capabilities 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 and return to centre. Before MTO, these features were found only in lighter vehicles capable of being steered by EPS.

In the Business Overview of this report, learn how Nexteer technologies align with the software trend as well as other mega trends.

In 2030 Software will account for 40% of total vehicle value
– up from 10% in 2015

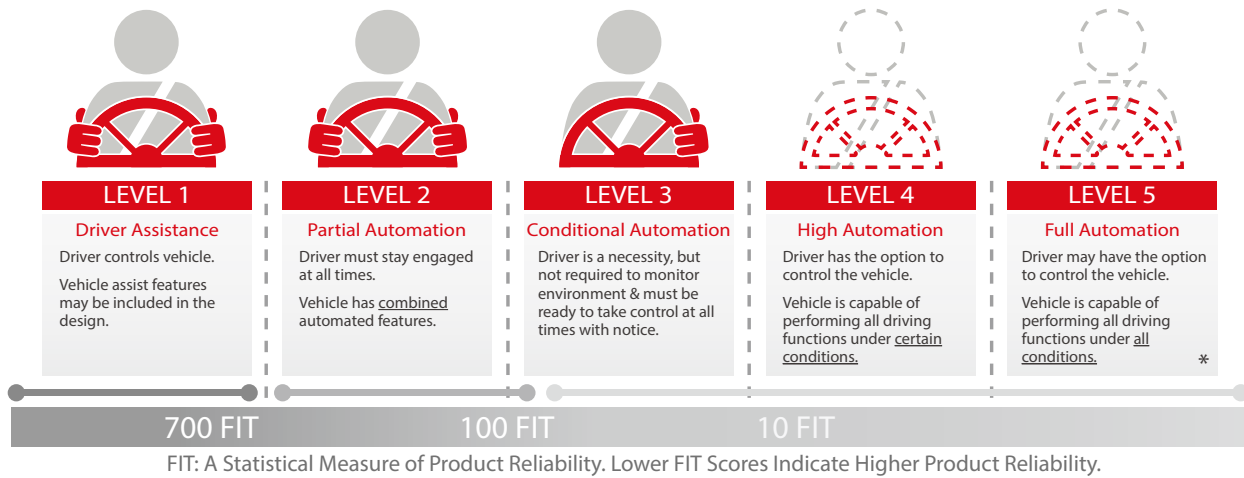


Our Products



NEW ERA OF SAFETY & PERFORMANCE

Nexteer's Leadership in ADAS / AD Landscape



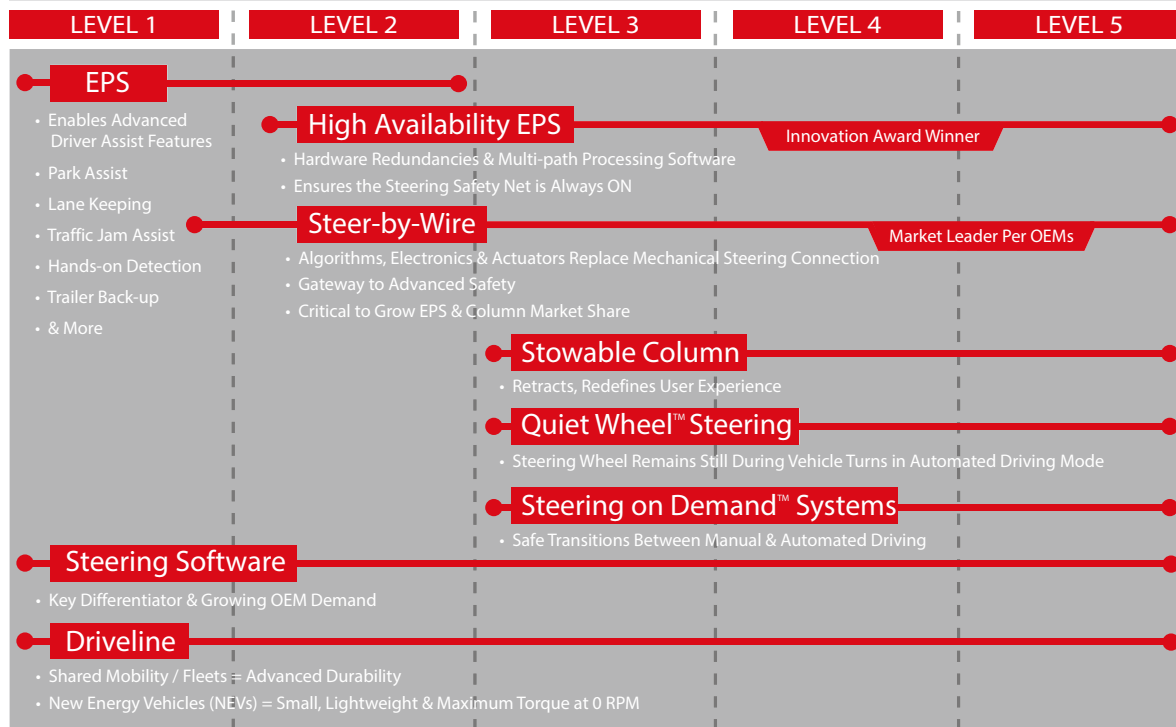
SENSE

PLAN

ACT



- 28% of Nexteer's EPS Backlog Enables Levels 3-5 ADAS / AD Functions**
- Advanced Development Programmes Are Not Included in Backlog
- Strategic Partnerships with Early Adopters: Global OEMs, CNXMotion & Industry Peers



BUSINESS OVERVIEW



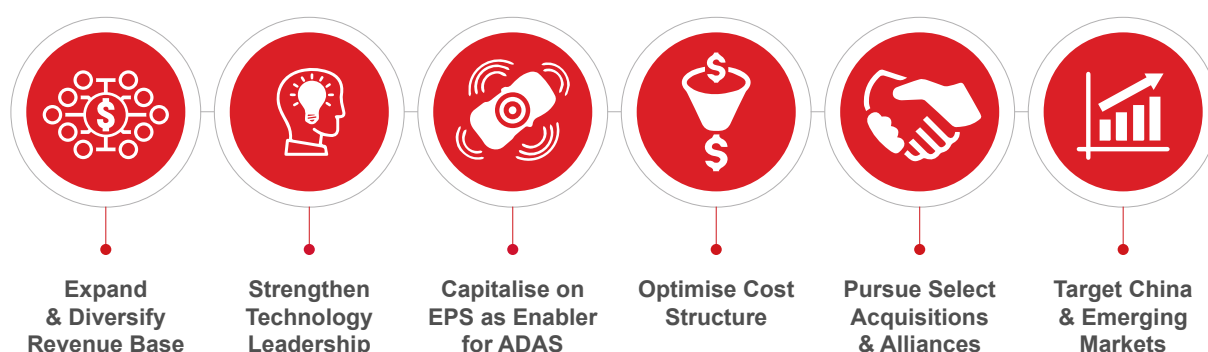
Business Overview

STRATEGY FOR PROFITABLE GROWTH

Nexteer's six-point strategy for profitable growth continues to yield positive results for the Company. We use these guideposts in our daily decision-making – ultimately driving shareholder value.



Strategy for Profitable Growth



A Well-Defined Plan to Drive Stakeholder Value

2019 BUSINESS HIGHLIGHTS

The following highlights demonstrate Nexteer's focus on delivering long-term profitable growth:

- Secured US\$7.0 billion in customer programme awards (**Bookings**)
 - o Of which 50 percent was conquest business
 - o Retained 100 percent of our incumbent business for second consecutive year
- Achieved a historical high in our Backlog of Booked Business, increasing to US\$26.4 billion – a 4.4 percent increase year-over-year from 2018
- Successfully launched a record number of 45 new customer programmes across product lines, regions and customers
- Continued globalisation and diversification of our global technical and manufacturing footprint to support our customers — both now and in the future
- Committed investment and demonstrated leadership in technology for future growth

2019 HIGHLIGHTS

- **US\$7.0B** in Bookings
- **US\$26.4B** Backlog
- **45** Programme Launches

GROWING & DIVERSIFYING: CUSTOMERS, PRODUCTS & REGIONS

In 2019, Nexteer continued to focus on driving organic growth with new customers and expanding our presence on new platforms with existing customers.

We achieved a record booking year in 2019 and continued to successfully displace our competitors for new business wins, including top competitors on several new EPS, DL and CIS programmes for multiple global OEMs. Some additional highlights include:

- Added a premium breakthrough customer with a DL programme award from a European OEM
- Won our first-ever DPEPS programme award from a European OEM
- Became the market leader in annual REPS unit volume production
- Re-entered the DL business in Europe with the added footprint of our Kenitra, Morocco production facility

BREAKTHROUGH WINS

- **50** Percent Conquest Wins
- **100** Percent Incumbency Wins for Second Consecutive Year
- Won First DPEPS programme
- DL Conquest for Premium German OEM
- Truck EV for 2 North America OEMs; Representing All Product Lines

We have successfully moved into this conquest model by remaining focused on our core competencies, customer relationships, as well as diversification across products, customers and global footprint.

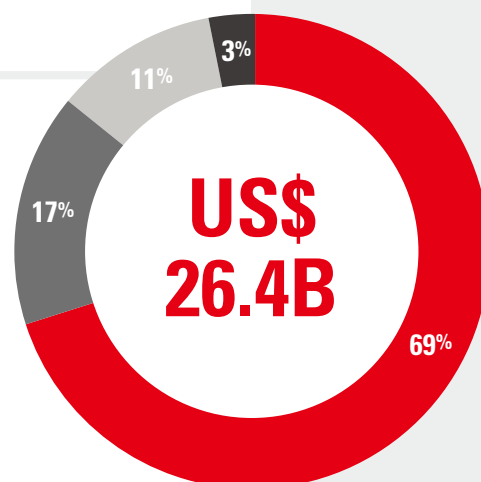
1. **Core Competencies:** Our ability to conquest pursuits over incumbent competitors is driven by our creative approach to product and process design – while remaining cost competitive. A robust product portfolio that includes current and future steering and DL technologies is also critical to conquering business, especially as OEMs continue to focus their resources on future technologies.
2. **Customer Relationships:** Our success can also be attributed to the strong customer relationships we have developed based on Nexteer's technical expertise, customer responsiveness and ability to tailor motion control solutions. The strength of our customer relationships is not only evidenced by programme wins, but also demonstrated through customer awards (listed in this report) as well as achieving strategic-level status with customers such as GM with "PRIME Supplier" status and Ford with "ABF Supplier" (Aligned Business Framework) status.
3. **Customer Diversification & Globalisation:** In 2019, Nexteer achieved break-through wins with our first Dual Pinion EPS globally and re-entered the Driveline business in Europe.

BACKLOG OF BOOKED BUSINESS

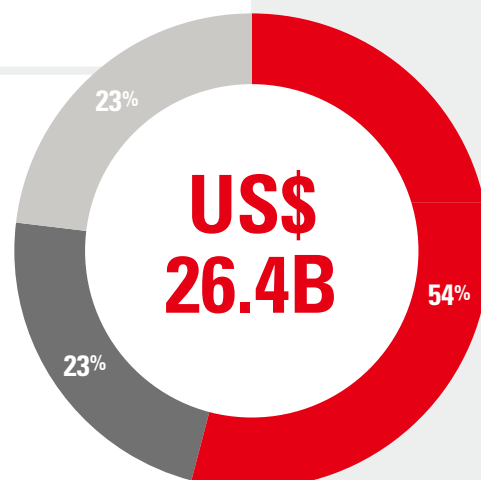
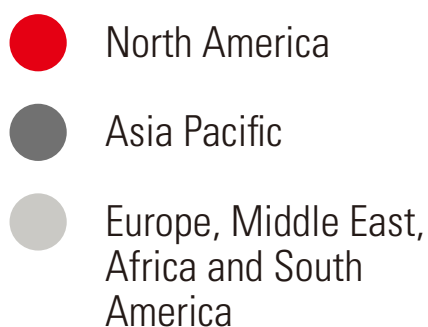
We begin to realise revenue under a new business contract as steering systems and DL products are first shipped to vehicle manufacturers at the time of product launch. Product launches have historically lagged the date of contract award by an average period of 24 to 30 months. We have calculated a booked 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 (the **Backlog of Booked Business, Booked Business** or **Backlog**), increased by 4.4 percent to approximately US\$26.4 billion as at December 31, 2019 compared with US\$25.2 billion as at December 31, 2018.

Backlog of Booked Business

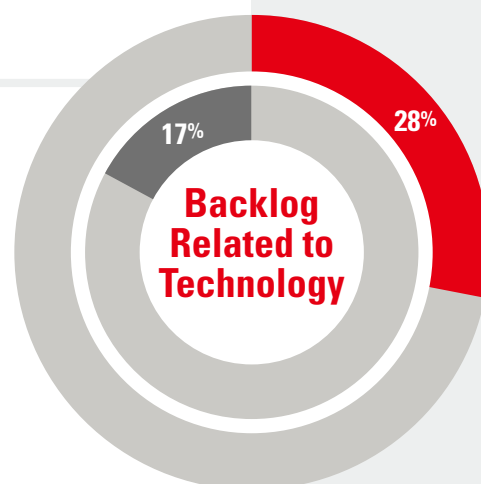
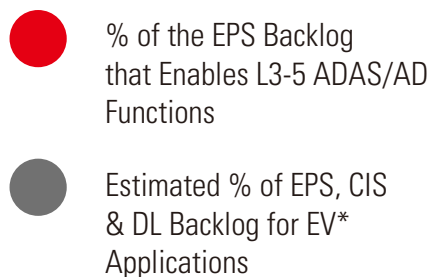
Backlog by Product Group



Backlog by Geographical Segments



Backlog by Product Related to ADAS/AD Functionality & EVs



*EV Analysis includes:

- Battery Electric Vehicles
- Full Hybrid Electric Vehicles
- Plug-in Hybrid Electric Vehicles

Business Overview

The value of Booked Business is not a measure defined by International Financial Reporting Standards (IFRS), and our methodology for determining the Backlog 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, suspension or cancellation 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 Backlog. While we believe that our current Backlog is a relevant financial metric, we must emphasise that the information set out in this section in relation to the Backlog shall not constitute any forecast or prediction of the revenue and profits of the Group and the actual future value may differ from the estimated Backlog due to various factors beyond the Group's control.

NEW PRODUCTION LAUNCHES

With the launch of 45 customer programmes in 2019, including two programmes from our non-consolidated JVs, 2019 was a record launch year for the Company. Through these launches, we introduced new or enhanced product applications in steering and DL across all regions and vehicle segments. These programmes represented both global and local vehicle nameplates and included incumbent and conquest business. Customer programmes that began production in 2019 included:

| OEMs | Vehicle Nameplate | Our Products |
|--------------------------------------|--|---|
| North America | | |
| Karma Automotive | Revero, Revero GT, Revero GTS | Columns |
| Ford | Ford Explorer, Lincoln Aviator | Columns, Halfshafts |
| | Ford F-53, Ford F-59 | Columns |
| GM | GMC Sierra HD, Chevrolet Silverado HD | Integral Gear, Steering Pump, Halfshafts, Intermediate Shaft |
| | Cadillac XT6 | Halfshafts, REPS |
| | Cadillac CT5 | Columns |
| EMEASA | | |
| Groupe PSA | DS3 Crossback | SPEPS |
| | Opel Corsa | SPEPS |
| | Peugeot 2008 | SPEPS |
| | Peugeot 208 | SPEPS |
| Asia Pacific | | |
| BYD Auto Co., Ltd. (BYD) | BYD E2 | CEPS |
| | BYD E3 | CEPS |
| | BYD Yuan | CEPS |
| Changan | Ossan X7 | CEPS*, Halfshafts |
| | Changan Cs35 Plus | Halfshafts |
| Chery Automobile Co., Ltd. | Chery Arrizo GX | CEPS |
| | Exeed LX | Halfshafts |
| | Exeed VX | Halfshafts |
| Guangzhou Automobile Group Co., Ltd. | Guangzhou Auto Aion S | CEPS |
| GM | Cadillac XT6 | Halfshafts, REPS |
| | Buick Encore | CEPS, Halfshafts |
| | Chevrolet Trax | CEPS, Halfshafts |
| Mahindra & Mahindra | Mahindra XUV300 | Halfshafts |
| Groupe PSA | Peugeot 208 | SPEPS* |
| RNM | Nissan DAYZ | Halfshafts |
| | Mitsubishi eK Wagon | Halfshafts |
| | Renault Tribler | CEPS, Halfshafts |
| | eGT K-Ze | CEPS |
| SAIC-GM-Wuling | MG Hector | CEPS |
| | Baojun RS-3 | CEPS |
| Maruti-Suzuki | Maruti-Suzuki S-Presso | Halfshafts |
| Tata Motors | Tata Harrier | Halfshafts, HPS Steering Pump |

* Related to one of our non-consolidated JVs

Business Overview

GLOBALISATION & REGIONAL AUTONOMY

In 2019, Nexteer continued our thoughtful global footprint diversification and expansion in regions strategically important to our key customers. These new facilities support our approach of producing in the region of consumption to ensure built-in efficiencies, customer responsiveness and short supply lines.

- The grand opening of our new **Asia Pacific Technical Centre** in Suzhou, China in January 2020 is a prime example of continued globalisation of our engineering expertise to capitalise on growth opportunities, enhance customer responsiveness and drive efficiencies. The new Technical Centre is more than 30,000 square meters of research and development (R&D), labs, test track and offices. The centre will provide in-house ownership of comprehensive engineering processes as well as serve as Nexteer's Asia Pacific Division headquarters.
- **Software Centre in Bengaluru, India:** To support growing demand for software-enabled safety and performance in advanced steering applications, Nexteer opened our India Software Centre (ISC) in January 2019. At the time of this report, the ISC employed almost 200 software engineers. The new facility focuses on production intent software and validation – ensuring quality and compliance with our established product requirements as well as those required by external regulations. Meanwhile, Nexteer's Global Technical Centre in the US, in tandem with Regional Technical Centres in Poland and China, continue to work on feature development with our customers.

2019 LAUNCH HIGHLIGHTS

- **45** Launches: 28 in APAC, 13 in North America and Four in EMEASA
- **34** New Conquest Programmes Across EPS, DL and Columns
- Launched Almost as Many DL Programmes (17) as EPS Programmes (19)
- Three DL Programmes in India
- First-ever BEPS Programme Launch in India

In September 2019, we completed a new lab facility at our ISC to support critical software development, testing and validation in alignment with Automotive Software Process Improvement and Capability Determination (A-SPIICE) standards. A-SPIICE certification has become increasingly important as it is required for doing business with German automakers and is widely becoming recognised as the standard process to improve software development and ensure compliance with customer requirements industry-wide.

- **EPS & DL Production Facility in Chennai, India:** As Nexteer's third production facility in India, the new Chennai facility was opened in January 2019 to expand regional production capacity for Nexteer's CEPS systems and DL components. The start of production began in May 2019.



Business Overview







- EPS & DL Production Facility in Kenitra, Morocco:** In 2019, our first facility in Africa went from field to factory in 10 months. In the third quarter of 2019, we began an extensive sequence of steering and DL programme launches that will continue throughout 2020. This facility expands our SPEPS and DL production to support RNM, PSA and FCA customer programmes in Europe and Africa. Customer acceptance and booking success in Morocco has been unprecedented for the Company, largely driven by DL programme wins. We have already achieved full capacity with awarded customer programmes for this facility and will continue to make additional investments necessary to support customer demand.
- EPS Production Facility in Liuzhou, China:** In June 2019, Nexteer moved our Liuzhou plant to a new, Company-owned facility. The new facility provides customers with CEPS systems and related technologies and services. This new plant enhances Nexteer's manufacturing capacity in the Asia Pacific region to meet the demand for EPS systems in China and Asia Pacific markets.
- EPS Production JV Facility in Wuhan, China:** In August 2019, we began production at our new facility in Wuhan as part of our Dongfeng Nexteer Steering Systems (Wuhan) Co., Ltd. (**Dongfeng Nexteer**) JV. This site supplies SPEPS primarily for Dongfeng and DPCA programmes. We intend to expand the product portfolio produced at this JV in the future with other customers – applying the same global bill of design and bill of process that we employ in all of our global manufacturing sites.
- Electrical Validation Lab in Tychy, Poland:** This new, comprehensive lab enhances regional autonomy in electrical capabilities for our Europe, Middle East, Africa & South America (**EMEASA**) region.



Growing regional autonomy and capabilities is a critical component of our global footprint strategy. We continue to equip and empower our regional teams to operate at a higher level of local autonomy to further enhance customer support and service. Benefits include enhanced customer responsiveness, cost effectiveness as well as optimised engineering bandwidth increasing our growth capacity.

Business Overview

THOUGHTFUL ALIGNMENT WITH MEGATRENDS: ADAS – ADVANCED SAFETY & PERFORMANCE, SOFTWARE, ELECTRIFICATION, MOBILITY-AS-A-SERVICE (MAAS), CONNECTIVITY

| |  ADAS L2/3 <i>Advanced Safety, Driver Assist</i> |  Electrification |  Software |  ADAS L4/5 <i>Advanced Safety, High/Full Automation</i> |  MaaS |  Connectivity |
|--------------|--|---|--|---|--|--|
| DL | | ✓ | | | ✓ | |
| CIS | ✓ | ✓ | ✓ | ✓ | | |
| EPS | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| SbW | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| R&D | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| CNXMotion JV | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

While megatrends influencing the automotive and adjacent sectors represent new and unique channels for Nexteer, we are taking a thoughtful approach as many of these opportunities will build slowly and are dependent on several variables including further vehicle and component technical enhancements and system integration, infrastructure improvement and changes to the current regulatory framework. Thus, we continue to retain balance in this area.

Following is a high-level overview of global megatrends and how Nexteer aligns with opportunities in these areas. In many cases, our technologies create a natural fit for Nexteer to offer solutions for the quickly evolving challenges in motion control.


ADAS L 2-5

Advanced Safety & Performance: Nexteer is enhancing the future of mobility through intuitive motion control solutions that enable a new era of safety and performance.

On the safety side, SbW enhances stability control, shorter braking distances, as well as AES among others. On the performance side, Nexteer's software experts tailor the steering feel and responsiveness (from luxury to sporty) and even customise steering feel to an OEM's brand.

Here are more details about one of the advanced safety features enabled by SbW technology: Collision avoidance through AES.

ADVANCED SAFETY & PERFORMANCE

- **High Availability EPS (10 FIT)**
- **SbW**
- **Stowable Columns**
- **Quiet Wheel™ Steering**
- **Steering on Demand™ System**
- *Note: See "Our Products" Section in This Report for Details & Associated ADAS Levels*

- When a vehicle detects an upcoming obstacle and the driver does not effectively react within a defined window of opportunity, AES can either assist or direct the steering system to avoid the obstacle.
- This reduces the chance or the severity of the most common types of collisions delivering improved levels of safety.
- With our advanced SbW software, Nexteer is able to seamlessly manage or eliminate steering wheel rotation during AES maneuvers bringing added confidence, security and comfort to the driver.
- Because of these benefits, we believe that SbW will become the OEMs' preferred AES implementation method.
- AES is currently referenced in the European New Car Assessment Programme (EuroNCAP) 2025 Road Map, with AES implementation milestones noted for mid-2020s.
- AES, preferably enabled by SbW, could also provide a market differentiator for an OEM by offering drivers the most advanced safety features.

Overall, Nexteer is poised to capitalise on the "next conversion wave" to SbW, with customers targeting the start of production in the mid-to-late 2020s. SbW adoption may also increase Nexteer's content per vehicle (**CPV**) as SbW systems require both a handwheel actuator and a roadwheel actuator – each with its own motor, controller and software.

To learn more about how Nexteer's advanced technology suite supports ADAS levels 1-5, please reference this report's info-graphic titled "New Era of Safety & Performance: Nexteer's Leadership in ADAS/AD Landscape". Beyond SbW, this info-graphic shows how Nexteer technologies align with ADAS levels including: High Availability EPS, Stowable Columns, Quiet Wheel™ Steering and Steering on Demand™ System.

SBW: ADVANCED SAFETY BENEFITS

- Preferred AES (Collision Avoidance) Enabler
- Enhances Stability Control
- Improves Braking Distance
- Communicates Road Surface – Safety-related Feedback (e.g., Slippery, Icy, Gravel, etc.)



Business Overview



Electrification, New Energy Vehicles: Electrification and all forms of electric vehicles (**EV**) are expected to grow on a global scale – with China expected to continue to lead production demand. For Nexteer, steering systems in a traditional internal combustion engine (**ICE**) versus an EV are similar. In fact, similarities increase cost efficiency for our customers, especially if they are launching an EV as a subset of an existing platform.

Nexteer is well-positioned to capitalise on the electrification megatrend with our rack-assist and pinion-assist EPS systems. These power dense under-hood systems are preferred for EVs because they can support the EV's unique load requirements as well as accommodate electrified variants of current ICE full-size trucks and SUVs. Furthermore, Nexteer's High Output (**HO**) EPS may open a new conversion wave of hydraulic-to-electric power steering for heavy-duty trucks. As OEMs show increased interest in electrifying powertrains for full-size trucks and SUVs in North America, Nexteer's EPS technology and leadership in the truck vehicle segment strongly positions us to lead the electrification efforts in this area.

ELECTRIFICATION & NEXTEER

- **SbW: Packaging Flexibility, Component Reuse & Standardisation**
- **Rack & Pinion EPS: Under-hood EPS for Heavy EV Loads**
- **HO EPS: Converts Heavy Duty Trucks & SUVs from Hydraulic to EPS**
- **CIS: Reduced Mass, Packaging Flexibility**
- **Driveline: Quiet EVs Needs Premium, Low Mass Axles, Joints**

Component Re-Use & Standardisation

In addition to under-hood EPS, Nexteer's SbW offers advantages for EVs when it comes to packaging flexibility by accommodating large batteries and re-using components across platforms such as left-hand drive and right-hand drive vehicles.

SbW may also benefit OEMs through parts standardisation. Today, different steering ratios within a single vehicle platform require different rack and pinion designs. With SbW's variable steering ratio, Nexteer uses software code and algorithms to systematically adjust steering ratio and optimise performance. As a result, OEMs get a tailored steering feel while standardising and reducing part numbers. These additional benefits continue to make the SbW business case more attractive.

Nexteer's CIS technologies also play an important role in the electrification trend by offering reduced mass and packaging flexibility. For example, most EVs are designed with the battery central and low in the vehicle. Sometimes, this requires an innovative intermediate shaft solution to accommodate the battery.

In addition to steering, we also see alignment between our DL business and electrification. Nexteer expects the EV trend to also drive demand for high-efficiency joints, lower mass and premium NVH half-shaft designs. Halfshaft designs will expand fatigue requirements due to increased torque and regenerative braking needs in EVs. In addition, specialised joint types will be needed for enhanced NVH and efficiency needs due to the quietness of EVs.



Business Overview



Software: Along with industry analysts, we view software and electronics as key differentiators and expect market demand for software expertise to continue to grow. The industry is migrating toward domain controller centralisation, as well as vehicle-level designs that are more defined by software than hardware. OEMs require steering systems with advanced functionality and safety, especially in advanced motion control systems such as SbW and High Availability EPS. This evolution demands complex solutions and a stronger skill set in software and electronics, compared to traditional mechanical engineering.

Software also influences our column technologies, such as memory recall for power column position and electric steering column locks for intelligent anti-theft systems. In the future, we foresee sensors detecting when a column is stowed or un-stowed from the instrument panel.

As this frontier evolves into greater connectivity and automation, software will also become increasingly critical in cyber security. Nexteer's Electrical Architecture protects against cyber threats by validating steering commands. Our cyber secure solutions enable secure links during design and manufacturing; minimal-to-no-cost impact on production; multi-vehicle application; and Black Box software integration.

Nexteer's global software business model addresses these growing demands and fosters innovation, quality and compliance with customer specifications, industry protocols and regulations. We recognise the importance of technical capability to drive continued expansion with current and future customers. In fact, software skills have been key to driving success in conquest opportunities over the past few years. To support this growth, approximately 45 percent of the engineers employed at our Global Technical Centre in Saginaw, USA site are working in software, systems and electronics – compared to less than 15 percent just 10 years ago. In addition, our new ISC mentioned earlier represents an important milestone for Nexteer – enabling us to increase our technical bandwidth and capacity to meet industry needs.

SOFTWARE & NEXTEER

- Key Differentiator
- Global Business Model: Feature Development, Production-Intent Software & Validation
- Growing Demand in Safety-Critical Steering
- SbW & High Availability EPS (10 FIT): More Advanced Steering Features Mean More Complex Code
- Cyber Security: Secure Manufacturing, Validated Commands on the Road
- Software Engineers: 45% of Global Technical Centre Engineers



Business Overview



Vehicle Autonomy & MaaS: In this area, we are leveraging our core competencies to align with advanced work in autonomy. We continue to develop our technical capabilities in this domain – looking for ways to accelerate both learning and economic impact while capitalising on technical building blocks already in development.

As described earlier, our comprehensive suite of advanced steering technology will allow Nexteer to capitalise on this megatrend. We continue to work with key customers to support commercialisation readiness of higher levels of vehicle autonomy (SAE ADAS Levels 3 and above). In fact, the greatest validation of our technology leadership is customers choosing Nexteer as their partner of choice. Nexteer earned GM's PRIME Supplier status and Ford's Allied Business Framework (**ABF**) Supplier status. Both signify a long-term commitment and strategic collaboration as GM and Ford strive to realise their unique versions of a Connected, Automated, Shared and Electric (**C.A.S.E.**) future.

Within the new mobility megatrend, we are also paying close attention to autonomous people-movers and goods-delivery-vehicles. We see this market expanding rapidly with many new entrants, thanks to MaaS and Last Mile Delivery services (**LMD**). In this market segment, regulations and entry may be less challenging due to the low speed and the highly controlled navigation routes. Nexteer will be contributing our expertise in the motion control systems and software to this emerging market.

We also showcased our partnership with CNXMotion, Continental and others on an autonomous people mover project. As reported in Governor Whitmer's announcement on October 22, 2019, the team "will provide a fixed-route shuttle, utilising three, automated 15-passenger vehicles. There will also be capacity for a 'shuttle train,' carrying groups of up to 45 people at one time".

In addition to the autonomous people mover application, Nexteer is also exploring shuttling goods through a development partnership with a leader in Last Mile Delivery Services. We are leveraging our 10 FIT Steering System and dual-path processing software for test fleet application in 2020.

We also foresee that MaaS will require higher durability designs for Steering & Driveline due to massive increase of driving hours on shared fleet vehicles in shorter time periods. For example, a global OEM recently requested a validation on a steering system for 300,000 miles in a three-year duty cycle.

Beyond shuttling people, Nexteer is also exploring motion control solutions for shuttling goods in partnership with a leading LMD provider. We are leveraging our 10 FIT Steering System and dual-path processing software for test fleet application in 2020.

MAAS & NEXTEER

- Preferred Tech Partner for GM, Ford & FCA's C.A.S.E. Visions
- SbW & High Availability EPS* (10 FIT): Key Enabling Technologies *2018 GM Innovation Award Winner
- Partnerships in Autonomous People Moving & Last Mile Delivery of Goods
- CNXMotion, JV with Continental: Integrated Steering & Braking – Full Motion Control in Advanced Applications
- Driveline, EPS, Columns: Shared Fleets Will Mean Extended Durability Requirements





Connectivity Impact on Product: The Internet of Things impacts all facets of the automotive industry from products to new service-minded (versus product-focused) business models discussed earlier in the mobility section. Beyond products and services, this trend has made dramatic impact in automotive manufacturing.

On the product side, connectivity is the chain that links many of the megatrends together, especially considering the next generation of 5G networks. Vehicle-to-Everything/Vehicle-to-Vehicle/Vehicle-to-Infrastructure (**V2X/V2V/V2I**) communication will enhance mobility on several fronts – especially on safety with real-time road conditions, predictive weather and traffic systems, as well as over-the-air (**OTA**) updates to vehicle software systems.

Real-Time Safety via Well-Informed Motion Control Systems and OTA updates:

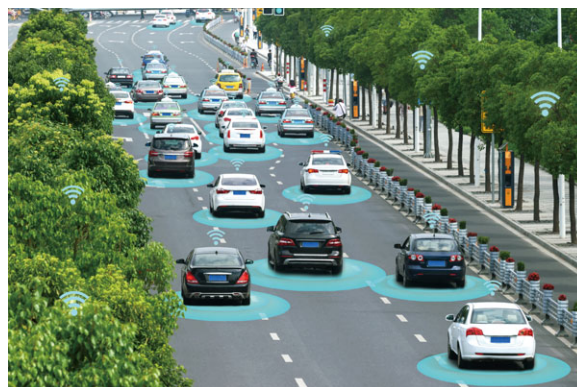
Connectivity and V2X environments will drive continuous data streams into and from the vehicle, driver, road and other infrastructures. In the future, this data could be fused and routed to and from the steering system. The “well-informed motion control system” could anticipate the safest lateral and longitudinal maneuvers in a given operating environment. In turn, the vehicle could alert other vehicles about an upcoming hazard – all in real-time.

We believe that SbW remains the best solution to execute these maneuvers as the road wheels will need to act independently from the hand wheel to execute the directional control data feed. Furthermore, V2X environments may potentially enable OTA steering software updates.

Cyber-Secure Advanced Steering – As vehicles adopt advanced electronics to enable AD, internet connectivity and V2X communication, cyber-secure steering technologies become ever more critical. 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 at 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.

Connectivity Impact on Manufacturing: On the manufacturing side, this megatrend goes by many names: Industry 4.0, Smart Manufacturing and others. Nexteer’s application is called Digital Trace™ Manufacturing. The primary benefits of this data-driven manufacturing revolution are:

- Increased time and cost efficiencies across entire value streams
- Predictive and proactive problem-solving (even before “problems” actually arise)
- Enhanced manufacturing quality, minimised risk of product defects
- Furthers robustness of traceability systems
- Improved capacity planning and workforce optimisation
- Integration of today’s workforce and technology with next generation of technologies (e.g., co-bots, predictive data analytics, etc.)



CONNECTIVITY & NEXTTEER

Product Impact:

- New Frontier of Safety & Performance
- Real-Time Safety via “Well-Informed” V2X Motion Control Systems
- Cyber Security Validating True Steering Commands

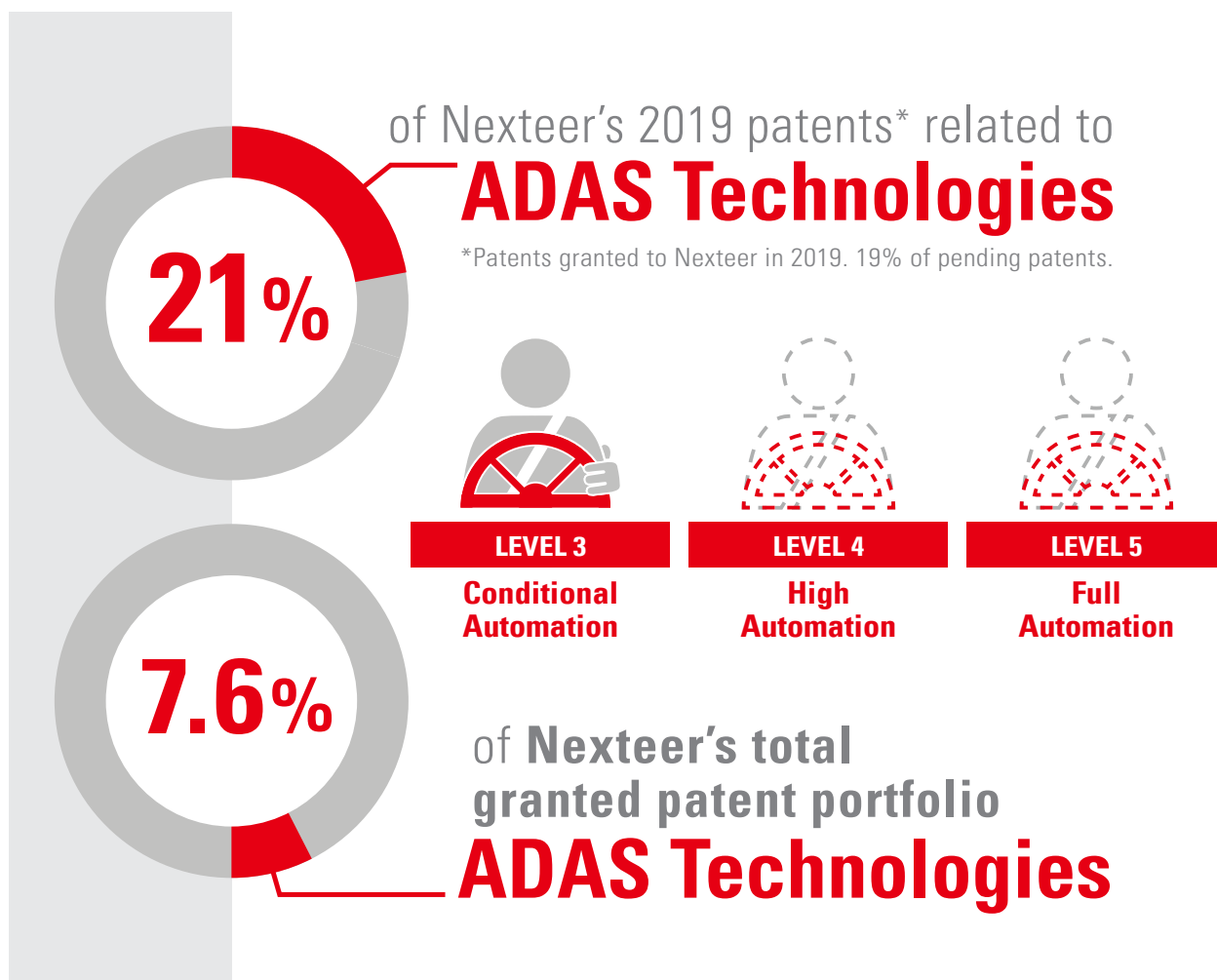
Manufacturing Impact:

- Nexteer’s Digital Trace™ Manufacturing Technical Centre Engineers

Business Overview

INTELLECTUAL PROPERTY PROTECTION & TECHNOLOGY

As Nexteer relentlessly innovates for motion control solutions within and beyond megatrends, we continue to focus on technology and intellectual property protection on ADAS and AD. In 2019, 19 percent of pending patent applications were focused on ADAS Levels 3, 4 and 5, while 21 percent of all new patents granted to Nexteer in 2019 were related to ADAS Level 3 through 5 technologies. ADAS Level 3-plus patents also accounted for 7.6 percent of Nexteer's total granted patent portfolio.

**DEMONSTRATED LEADERSHIP VIA TECHNOLOGY DEMONSTRATIONS & SPEAKING ENGAGEMENTS**

In the first half of 2019, CNXMotion completed a second round of winter demonstrations in Sweden to review new features such as road surface detection, which highlighted our integration capabilities to use multiple system information sets to optimise performance. In addition, AD control continues to mature, with the latest generation surprising customers with its accuracy and natural feel.

In the second half of 2019, Nexteer also attended as well as hosted ride and drive events with advanced technology demonstrations for customers, investors, government officials, media and others. Some of these events were in partnership with Continental and CNXMotion, our JV. For example, Nexteer hosted a private ride and drive technology showcase in Paris in October 2019. At this event, current and potential customers consulted with our technical experts, experienced our latest technologies through immersive demonstrations and explored opportunities to partner with Nexteer on R&D projects. Demonstrations included our SbW enabling AES for collision avoidance and other technologies both in production and in development.

Business Overview

In 2019, Nexteer's industry thought leaders continued to be sought after speakers at high-profile events around the world to discuss the challenges, opportunities and solutions in advanced safety and performance, as well as manufacturing excellence.

Nexteer speakers were featured at the following 2019 events:

- 2019 China Autonomous Vehicle Summit in Shanghai, China
- 2019 China Automotive Intelligent Manufacturing Innovation Conference in Shanghai, China
- iVT Autonomous Industrial Vehicle Technology Expo & Conference in Cologne, Germany
- Chassis Tech Plus 2019 in Munich, Germany
- Steering Systems USA 2019 in Detroit, USA
- Best of Best Executive Roundtable in Shanghai, China
- 2019 China SAE Congress & Exhibition in Shanghai, China
- IQPC International Conference Steering Systems in Berlin, Germany
- National Association of Manufacturers Manufacturing Leadership Summit in Huntington Beach, USA

LEADERSHIP VALIDATED BY CUSTOMER & INDUSTRY RECOGNITION

The industry and our customers recognised Nexteer's leadership with many awards throughout the year. Nexteer was honoured for product and manufacturing innovation, quality and excellence – as well as for exceptional customer relationships.



Here is a summary of achievements:

- GM Supplier of the Year
- Ford's "Silver Level Manufacturing Award" for Nexteer Suzhou's EPS Production
- SGMW's "Excellent Responding Award" and "International Pioneer Award" for Nexteer Asia Pacific for our quality products, goods service and spirit of partnership
- Groupe PSA's "Platinum Supplier Status Certificate of Excellence" for Nexteer Poland in recognition of outstanding service
- GM's "Supplier Quality Excellence Award" for Nexteer's Plant 6 in Saginaw, USA

Business Overview

- GM's "Customer Care & Aftersales Drive2Great Program Recognition" for Nexteer's North America Service & Aftermarket Manufacturing Performance
- ThyssenKrupp's "Delivery Quality Award" for Nexteer Poland
- International Automotive Congress' "Automotive Innovation Technology Award" for Quiet Wheel™ Steering and Stowable Steering Column
- National Association of Manufacturing's "Manufacturing Leadership Award for Enterprise Integration and Technology Leadership"
- Moto Idea's "Decade Award" for Nexteer Poland for making a significant impact on the Polish automotive sector
- American Society for Quality's (ASQ) "International Team Excellence Award Finalist" for Nexteer Suzhou
- ASQ's "Attendee Choice Award of Innovative ideas for Internal Stakeholders" for Nexteer Suzhou
- Manpower Group's "Friendly Place to Work Award" for Nexteer Poland
- "Great Place to Work" Certification for Nexteer Brazil and Nexteer Germany
- Motosolutions' "Corporate Social Responsibility Award" for Nexteer Poland
- National Safety Council of India, Karnataka Chapter's "Excellent Safety Award" for Nexteer India
- HR Yuancai's "Greater Suzhou Best Employer" for Nexteer Suzhou
- 51job.com and Yingjiesheng.com's "Top Graduate Employer" for Nexteer China
- HR Tech & HR Salon's "Candidate Experience Award" for Nexteer China

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

- 2020 NAIAS Truck of the Year: Jeep Gladiator featuring Nexteer steering column technology



EVOLVING PRODUCT, PROCESS & OPERATIONAL EFFICIENCIES

A critical element in driving shareholder value is continuous improvement in operational efficiencies and effectiveness. Our approach to continuous improvement includes common bills of design, material and process for efficient application across all manufacturing locations. In addition, we have large-scale efforts underway including the following two initiatives.

Digital Trace™ Manufacturing (DTM): In March 2019, DTM was recognised with a “Manufacturing Leadership Award” from the National Association of Manufacturers for outstanding achievement in Enterprise Integration and Technology Leadership. This is the second year in a row that we have been honoured by this organisation for our commitment and leadership in manufacturing excellence. This latest award demonstrates the impact that DTM is having on redefining global manufacturing processes, tools and predictive analytics.

North America DL Operations Transformation: To improve our efficiency, quality and cost competitiveness in the DL market, Nexteer began transforming the footprint and manufacturing process at our Saginaw, USA DL operations in the latter part of 2018. This transformation will improve customer value by creating global consistency with our other state-of-the-art regional DL operations. Long-term benefits of this transformation include:

- Global consistency leading to better quality and customer value
- Reduced lead time across our supply chain and utilising more supplier technology
- Improved efficiency and capacity utilisation in plant operations
- Technology improvement facilitating quality control and reliability and related cost improvements

This transformation represents a disruptive change for the business. For example, we currently utilise about 100,000 square meters of manufacturing floor space across two manufacturing plants. Through the consolidation efforts over the next two years, we will be able to move into one plant, utilising about 50,000 square meters.

We are also examining our make vs. buy strategy for several components that we currently manufacture in-house. By leveraging our supply base's technology and expertise, we are on track for this conversion and our suppliers have been very supportive of this initiative with their investment and technology commitment.

REGIONAL MARKET HIGHLIGHTS

In 2019, Nexteer continued optimisation of our global manufacturing footprint and technical centres to enhance efficiencies as well as customer and market responsiveness. Nexteer's global footprint includes 28 manufacturing facilities, three technical centres, one software centre and 14 customer service centres. The following is a brief overview of accomplishments by region during 2019.

Asia Pacific (APAC)

2019 was a year of “Customer Focus as a Core Value” for APAC. In 2019, Nexteer opened four new facilities in APAC to enhance customer responsiveness and quality; expand regional autonomy and efficiencies alongside globalisation of engineering expertise; and further capitalise on growth opportunities in the region.

The Chennai, India plant opened in January 2019. This strategic expansion brought our EPS production in close proximity to our customers in India for the first time. We also celebrated a relocation of a production facility in Liuzhou, China to a new facility within Liuzhou. Both the Chennai and Liuzhou production facilities are indicators of Nexteer's confidence in APAC's automotive industry and the importance of strong collaboration with strategic customers in the region.

Business Overview

In addition to the two production facilities, the Nexteer APAC team also opened two engineering-focused facilities in 2019.

First, the ISC opened as one key element in a global strategic approach to Nexteer's software business model that delivers innovative solutions with speed, flexibility and seamless vehicle integration. The centre not only strengthened Nexteer's key differentiators in software and electronic capabilities, but also supported the Company's strategy to capitalise on growing demand for its software-enabled functionality in advanced steering applications.

Second, Nexteer broke ground in 2017 in Suzhou, China for the APAC Technical Center and held a grand opening in January 2020. This latest addition to Nexteer's global footprint further enables the Company to globalise its engineering expertise, enhance local technical support and capitalise on emerging market growth opportunities in APAC.

Beyond footprint and engineering expertise expansion in 2019, Nexteer's JVs in China also achieved remarkable production milestones. Nexteer's JV with Changan, Chongqing Nexteer Steering Systems, Co., Ltd. (**Chongqing Nexteer**) celebrated its five-year anniversary and the production of its 1 millionth EPS unit in January and Dongfeng Nexteer started production of SPEPS systems, that are currently featured in A-C segment vehicles for Nexteer customers such as BMW and Groupe PSA.

In 2019, Nexteer's electronic power steering systems were successfully launched and produced for GAC and BYD. Furthermore, Nexteer's APAC team successfully won Driveline, Columns and I-Shaft business on GM's largest electric vehicle platform – an important accomplishment in the critical and competitive electric vehicle segment.

Europe, Middle East, Africa and South America (EMEASA)

2019 proved to be an important year for diversification in Nexteer's EMEASA region – both in terms of footprint and products.

In June 2019, Nexteer held the grand opening of its new production facility for EPS and DL in Kenitra, Morocco – the Company's first plant in Africa. Production of EPS systems began in September 2019 and the start of production for DL products begins in the first quarter of 2020. This location expands Nexteer's geographic reach and support of both African and European OEM production requirements, including: FCA, Groupe PSA and RNM. Following our current customer pursuit plan, Nexteer expects this operation to approach 500 employees in 2020. The total number of launches until the end of 2020 will reach six new programmes.

EMEASA's Technical Centre in Tychy, Poland was also extended by adding an electrical validation laboratory. This full-service facility also includes a prototype center, mechanical and electric validation laboratory, NVH validation, as well as a garage and test track. At the time of publication, the Tychy Technical Centre's team has hired over 200 new engineers across all engineering disciplines.

In 2019, Nexteer was awarded with new programmes with current and new customers in the EMEASA region. The programmes won in 2018 and 2019 extend our product offerings in the region beyond EPS to include CIS and DL and will position Nexteer to provide steering and DL to all ranges of passenger vehicles in the region.

One of the most significant new business wins in 2019 was the Company's first DPEPS win. While this is a significant programme for EMEASA, it also represents significant volume and a major milestone for Nexteer's portfolio expansion.

North America

In 2019, Nexteer's North America region continued focus on transforming and optimising operations to secure long-term sustainability. This focus included two main efforts: Transforming our Saginaw, USA DL business to improve efficiency and cost competitiveness as well as right-sizing operations to align with customer volumes and programme needs.

Business Overview

As described previously, Nexteer is in the process of transforming the footprint and manufacturing process at our Saginaw, USA DL operations to improve our efficiency, quality and cost competitiveness in the DL market. This transformation will improve customer value by creating global consistency with our other state-of-the-art regional DL operations and enable us to take advantage of customer programme opportunities. Key elements of this transformation include: new assets and technology upgrades, greater reliance on our strategic supply base and enhanced process standards and disciplines. While the bulk of the rewards of this transformation will be realised in 2021 and beyond, 2019 was critical to enabling a healthy future for Nexteer's Saginaw, USA DL operations.

In addition to optimising operations, our North America region also remained focused on providing exceptional quality and technical support to our customers and winning future business for our USA and Mexico operations. With its dedication to launch excellence, Nexteer in Saginaw, USA was recognised with GM's "Supplier Quality Excellence Award" in 2019. Overall, our North America team recorded significant 2019 new Booking successes with 13 new programmes won in 2019. These wins represented growth with existing customers across new and conquest programmes, including securing incumbent programmes for next-generation, high-volume vehicles.

Our North America division also faced industry challenges in 2019, specifically as a result of the strike between the United Automobile Workers (**UAW**) union and GM that occurred in the third and fourth quarter. GM's production disruption required Nexteer to temporarily lay-off both direct and indirect employees associated with our GM component production, as well as take other coordinated actions with our supply base, to mitigate the financial impact.

CORPORATE & SOCIAL RESPONSIBILITY

In addition to product and technology expertise, Nexteer continues to demonstrate industry leadership as a business partner- and employer-of-choice through our commitment to corporate social responsibility. We believe that through sustainable practices, we can continue to improve our performance and provide greater value to all our stakeholders, including shareholders, employees, customers, suppliers, local communities and society. We are integrating sustainability into our global business strategies and operations to help drive performance in five key areas:

An Environmental, Social and Governance Summary is provided in the Directors' Report on page 60.

SUSTAINABILITY HIGHLIGHTS



FIVE KEY FOCUS AREAS



BUSINESS ETHICS



SUPPLY CHAIN



COMMUNITY



VALUE CREATION



**HEALTH, SAFETY
and ENVIRONMENT**

Financial Highlights

| Results (US\$'000) | 2019 | 2018 | Change |
|--|------------------|-----------|---------|
| Revenue | 3,575,657 | 3,912,170 | (8.6%) |
| Gross profit | 538,702 | 668,847 | (19.5%) |
| Profit before income tax | 263,933 | 410,391 | (35.7%) |
| Income tax expense | (29,275) | (26,045) | 12.4% |
| Profit attributable to equity holders of the Company | 232,445 | 379,657 | (38.8%) |
| Profit for the year | 234,658 | 384,346 | (38.9%) |
| Adjusted EBITDA | 525,096 | 619,564 | (15.2%) |

| Assets and Liabilities (US\$'000) | 2019 | 2018 | Change |
|--|------------------|-----------|--------|
| Non-current assets | 1,739,345 | 1,549,296 | 12.3% |
| Current assets | 1,519,627 | 1,562,215 | (2.7%) |
| Non-current liabilities | 542,751 | 580,825 | (6.6%) |
| Current liabilities | 864,565 | 820,842 | 5.3% |
| Capital and reserves attributable to equity holders of the Company | 1,811,981 | 1,671,810 | 8.4% |

These financial highlights should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2019 (the **Consolidated Financial Statements**).

CEO's Statement



"While the macro environment broadly impacted the automotive industry in 2019, united as a strong and resilient One Nexteer team, we navigated the year's challenging landscape and continued to position Nexteer for future success."

"As a leader in intuitive motion control, we are focused on winning the long game and believe our strategies for profitable growth will benefit Nexteer and our shareholders over the long-term."

ZHAO Guibin

Chief Executive Officer

Dear Shareholders:

On behalf of Nexteer, I am honoured to share with you our 2019 Annual Report and overview of Nexteer's performance in a demanding yet rewarding year.

NAVIGATING A CHALLENGING LANDSCAPE

Following a nine-year run of significant industry growth, 2019 brought an industry volume correction led by a downturn in China's vehicle demand. We managed a disruptive 40-day GM-UAW strike in North America that impacted production at our Saginaw, USA operations. Unfavourable foreign currency, tariff regimes and the lack of consolidation within the steering and driveline supply base provided further challenges. Despite these headwinds, we navigated the challenging landscape in 2019 and achieved success on many fronts that will benefit Nexteer and our shareholders in years to come.

STRONG BOOKINGS, BACKLOG & CONQUESTS

2019 marked a rewarding year for Nexteer, measured in terms of strong customer bookings and new business conquests. We retained 100 percent of our baseline incumbent business and secured US\$7.0 billion in new bookings, of which 50 percent were conquest awards. One tangible outcome of our efforts is evidenced by our growing Backlog which ended 2019 at US\$26.4 billion.

RECORD PROGRAMME LAUNCHES

2019 was also a record launch year as we executed 45 major programmes that spanned multiple product lines, regions and customers, compared with 22 launches globally in 2018. Examples of launches in 2019 included our first BEPS launch in India, as well as an EPS programme launch in our new Morocco production facility.

Furthermore, in 2019 Nexteer became the market leader in annual Rack EPS unit production. We recognise that each successful launch strengthens our customer relationships and our continued focus on flawless execution opens opportunities for us to gain future business.

BREAKTHROUGH WINS: DIVERSIFYING CUSTOMER, PRODUCT & FOOTPRINT

As we added new customers to our portfolio, we expanded our product reach – most notably in Europe with a breakthrough Dual Pinion EPS customer win – a global first in this EPS architecture – secured in 2019.

In North America, we completed the business retention of our third consecutive generation of full-size truck programmes with the Detroit Big Three. Further, we added two iconic full-size truck EV programmes to our REPS-based product line.

CEO's Statement

GLOBALISATION & REGIONAL AUTONOMY

We continued to grow and diversify, remaining focused on building regional skillsets and efficiencies that enhance Nexteer's responsiveness in markets that are strategic to our customers' success.

The grand opening of our APAC Technical Centre in January 2020 was a recent example of continued globalisation of our engineering expertise to address growth opportunities, enhance customer responsiveness and drive efficiencies. The new Technical Centre spans more than 30,000 square meters, will also serve as Nexteer's APAC Division headquarters and further localise in-house capabilities of comprehensive engineering processes.

We continued to diversify our global footprint, facility openings celebrated during 2019 included: our Morocco facility went from field to factory in 10 months; our Software Centre in Bengaluru, India; an EPS and Driveline production facility in Chennai, India; an EPS production facility in Liuzhou, China; and an EPS production facility in Wuhan, China as part of our Dongfeng JV.

LEADERSHIP IN INTUITIVE MOTION CONTROL

One tangible validation of technology leadership is when customers choose Nexteer as their ADAS partner of choice. Nexteer earned GM's PRIME Supplier Status and Ford's ABF Supplier status. Both signify a long-term commitment and strategic collaboration as GM and Ford strive to realise their visions for a Connected, Automated, Shared and Electric future.

Another validation point is our Backlog's connection to ADAS Levels 3-5 and EV technologies. In 2019, 28 percent of our Backlog was tied to ADAS programmes (compared to 21 percent in 2018) and 17 percent was tied to EV programmes (compared to nine percent in 2018). This growth demonstrates Nexteer's technology alignment with mega trends and OEMs' strategic initiatives.

We also teamed with Continental, CNXMotion (a Nexteer-Continental joint venture) and others on an autonomous people mover project. As announced by Michigan's Governor, Gretchen Whitmer, on October 22, 2019, the team "will provide a fixed-route shuttle, utilising three, automated 15-passenger vehicles. There will also be capacity for a 'shuttle train,' carrying groups of up to 45 people at one time". The demonstration will feature Nexteer's Steer by Wire, software technologies and systems integration expertise.

Along with autonomous people mover applications, Nexteer is also exploring shuttling goods through a development partnership with a leader in Last Mile Delivery Services. Nexteer is leveraging its 10 FIT Steering Systems and dual-path processing software for a test fleet application in 2020.

In addition to technical partnerships, Nexteer experts demonstrated thought leadership as sought-after speakers at high-profile industry events around the globe.

Nexteer also hosted and participated in ride and drive events with advanced technology demonstrations for customers, investors, government officials, media and others, including demonstrations in partnership with Continental and our CNXMotion JV.

Beyond events, the industry and our customers recognised Nexteer's leadership with many awards throughout the year. A few noteworthy achievements include: GM Supplier of the Year Award; Ford Silver Level Manufacturing Award; Groupe PSA Platinum Supplier Status Certificate of Excellence and many others listed in this report.

COMMITMENT TO OUR CUSTOMERS

Our customers frequently tell us that the "Nexteer Difference" is based on our collaborative approach – the passion our people bring to their work and the agility and speed in response to our customers' needs. We see all forms of enterprise quality as a reflection of ourselves. This continues to be a competitive advantage – especially in the conquest of new business with existing and new customers. Our success depends on the technical expertise, creative problem-solving and value creation we bring to each customer and opportunity.

CEO's Statement

REVIEW OF FINANCIAL RESULTS

Indeed, 2019 proved to be a challenging and difficult operating environment with slowing vehicle production demand and other factors that impacted our financial results.

For the year ended December 31, 2019, the Company's revenue was US\$3,575.7 million, operating profit was US\$272.7 million and net profit attributable to equity holders of the Company was US\$232.4 million.

While our 2019 financial results were lower than the prior year given the year's various headwinds, we remain vigilant in balancing short-term needs with aspirational long-term goals. We continue to stay the course with our proven strategy for profitable growth and its six tenets.

FOCUS ON THE FUTURE

Business achievements delivered in 2019 – strengthened Backlog, continued globalisation of our footprint, product innovation and brand differentiation, customer awards and recognition – have strengthened our confidence and resolve to further expand Nexteer capabilities in 2020 and beyond.

With a clear focus on the future, Nexteer deploys our core technical expertise to relentlessly innovate, alongside exceptional product and service capabilities to address today's mobility challenges as well as tomorrow's unfolding megatrends. Our balanced approach enables our customers to increase the value and consumer benefits of these rapidly evolving technologies.

In this 2019 Annual Report, you will see the results of the collective effort of our global One Nexteer team and the strong foundation on which we will continue to build future successes.

APPRECIATION

I agree with our customers' view that the "Nexteer Difference" is centered on our people. I appreciate our 13,000+ team members for working together, supporting each other, our collective capabilities, relationships, and above all, the tenacity for addressing opportunities and challenges in 2019 and the years ahead.

Finally, I am thankful for you – our shareholders – for your support as Nexteer fortifies a strong position for long-term growth in an increasingly competitive and fast-changing industry.

ZHAO Guibin

Chief Executive Officer

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 faced a number of macro-environmental headwinds during 2019 which challenged the financial performance of the business when compared with last year. The Group's revenue declined by 8.6% during 2019 compared with the prior year, with all three geographic segments adversely impacted by slowing OEM light vehicle production and other customer specific factors. Lower global OEM light vehicle unit production across all served regions and unfavourable foreign currency translation were significant factors impacting the Company's revenue comparisons. The Company's North America segment was further challenged during the course of 2019 by an on-going customer vehicle platform transition impacting revenue derived by the Company's CIS product line, and the unfavourable impact from the GM – UAW hourly employee strike which temporarily halted vehicle production of the Group's largest customer in the third and fourth quarter of 2019.

The Group's continued focus on operational efficiencies and cost reduction efforts only partially mitigated the impact of lower revenue, resulting in a decrease in net profit attributable to equity holders of 38.8% during 2019 compared with a year ago. The Company's 2018 net profit attributable to equity holders included a US\$27.1 million non-recurring US tax benefit associated with the company-specific US research tax credit initiatives and represented almost 18.4% of the US\$147.3 million unfavourable comparison with 2019.

While the operating environment in 2019 proved to be challenging, the Company continued to execute its strategy for profitable growth including, but not limited to:

- During 2019, the Group successfully launched a record 45 new customer programmes – 13 programmes in North America, 4 programmes in EMEASA and 28 programmes in Asia Pacific.
- The Company secured US\$7.0 billion in customer programme awards during 2019, of which 50% reflected conquest business. Furthermore, the Company successfully retained 100 percent of incumbent business which was subject to competitive contest in 2019.
- The Group's Backlog of Booked Business, 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, increased to US\$26.4 billion at the end of 2019, an increase of 4.4% when compared with last year.

Operating Environment

The global automotive market has a direct impact on our business and operating results. Factors affecting the industry include macro-economic influences such as consumer confidence, fluctuations in commodity prices, currency, fuel prices and regulatory environments. The Company operates primarily in the US, Mexico, China, Poland, India, Morocco and Brazil.

Global OEM light vehicle production fell in 2019 when compared with 2018 as a result of a slowing global economy and the effect of trade frictions between the US and several foreign countries, most notably China. According to IHS Markit Ltd. (January 2020), global OEM light vehicle production for the year ended December 31, 2019 decreased by 5.8% compared with 2018. North America light vehicle production for the year ended December 31, 2019 fell by 3.9%, compared with 2018, with North America full-size truck production 3.3% lower. Asia Pacific light vehicle production fell by 6.4% for the year ended December 31, 2019 compared with 2018, led by the second consecutive year of lower China light vehicle production of 8.5%. Light vehicle production in EMEASA decreased 4.2% for the year ended December 31, 2019 compared with 2018.

Management Discussion and Analysis

The Company continues to expand its global operating footprint to service its broad and growing customer base and, accordingly, the financial results of the business are impacted by changes in foreign currencies measured against the US dollar, principally the European euro (**Euro**) and Chinese renminbi (**RMB**). The Group's financial results were unfavourably impacted by foreign currency translation as during the course of 2019 the US dollar strengthened against both the Euro and RMB compared with a year ago.

Raw material costs represent a significant portion of the Company's cost of goods sold and changes in commodity costs have an impact on the financial results of the business in any given period. The Company strives to procure raw materials in the region of consumption and sale of products to its customers to minimise supply chain logistics as well as impacts from changes in foreign currencies and other factors. Commencing in 2018 and continuing through 2019, the US imposed various tariffs on goods imported from several foreign countries, with tariffs on China imports being the most extensive. While the purchase of commodities used in the US manufacturing of the Company's products are largely sourced from US suppliers, tariff regimes imposed between the US and China negatively impacted the Company's 2019 profit before income tax by US\$7.3 million compared with 2018. The Company continues to work closely with its supplier base to mitigate the impact of such tariffs.

Revenue

The Group's revenue for the year ended December 31, 2019 was US\$3,575.7 million, a decrease of US\$336.5 million, or 8.6%, compared with US\$3,912.2 million for the year ended December 31, 2018. According to IHS Markit Ltd. (January 2020), global OEM production volume decreased 5.8% from the year ended December 31, 2018, with year-to-year declines experienced in all geographic markets served by the Company. Foreign currency translation decreased the Group's revenue by approximately US\$55.9 million, principally impacting the Asia Pacific and EMEASA segments given the strengthening of the US dollar against the RMB and Euro during 2019 compared with a year ago.

We measure the results of our operations by geographic segment regions. The change in revenue is analysed by volume, mix, price and foreign currency translation impact. Volume measure changes are driven by the volume of products sold and mix changes are driven by the type of products sold. Price measures the impact of changes within the pricing structure of each product sold. Foreign currency translation impact is measured by the changes in foreign currencies measured against the US dollar.

Revenue by Geographical Segments

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

| | For the year ended December 31, 2019 | | For the year ended December 31, 2018 | |
|---------------|---|-------|---|-------|
| | US\$'000 | % | US\$'000 | % |
| North America | 2,448,792 | 68.5 | 2,625,309 | 67.1 |
| Asia Pacific | 642,579 | 18.0 | 781,512 | 20.0 |
| EMEASA | 484,286 | 13.5 | 505,349 | 12.9 |
| Total | 3,575,657 | 100.0 | 3,912,170 | 100.0 |

Management Discussion and Analysis

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

- North America segment – Revenue decreased by US\$176.5 million, or 6.7%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. Several factors impacted the revenue comparison. First, according to IHS Markit Ltd. (January 2020), North America OEM light vehicle and full-size truck production during the year ended December 31, 2019 was lower by 3.9% and 3.3%, respectively, compared with a year ago. North America segment revenue was further challenged by an on-going customer vehicle platform transition impacting the Company's CIS product line which lowered revenue by US\$128.0 million. This vehicle platform transition is now expected to be completed in the first quarter of 2020. During the third and fourth quarter of 2019, the Company's largest customer, GM, suffered a temporary production interruption as a result of a 40-day UAW hourly employee strike which negatively impacted revenue by US\$121.0 million. These factors were partially mitigated by strong programme demand from other customers during the course of 2019 reflecting the favourable impact of carry-over and new programme launches executed by the North America segment in both 2018 and 2019.
- Asia Pacific segment – Revenue decreased by US\$138.9 million, or 17.8%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. Significant factors contributing to the revenue decline included unfavourable foreign currency, lower China OEM light vehicle production demand and customer pricing. The Asia Pacific segment experienced US\$26.8 million of unfavourable foreign currency translation as the US dollar strengthened against the RMB during 2019 compared with a year ago. According to IHS Markit Ltd. (January 2020), OEM light vehicle production in Asia Pacific declined by 6.4% in 2019 compared with 2018, led by the second consecutive year of declining China OEM light vehicle production which fell by 8.5%, reflecting a slowing China economy as well as the political and economic uncertainty of on-going trade negotiations with the US. Several key China OEM customers of the Asia Pacific segment experienced higher light vehicle production declines from slowing consumer demand during the year which further contributed to the year-over-year revenue decline.
- EMEASA segment – Revenue decreased US\$21.1 million, or 4.2%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. The principal driver of the revenue comparison was unfavourable foreign currency translation of US\$29.1 million, reflecting the continued strength of the US dollar against the Euro during the course of 2019 compared with a year ago. Although OEM light vehicle production volume in Europe and South America decreased 4.2% for the year ended December 31, 2019 compared with 2018, according to IHS Markit Ltd. (January 2020), favourable volume from carry-over and new programme launches provided an offset to the lower OEM demand environment.

Revenue by Products

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

| | For the year ended December 31, 2019 US\$'000 | | For the year ended December 31, 2018 US\$'000 | |
|-----|---|--------------|---|-------|
| | | % | | % |
| EPS | 2,409,070 | 67.4 | 2,524,779 | 64.6 |
| CIS | 495,754 | 13.8 | 646,205 | 16.5 |
| HPS | 138,216 | 3.9 | 156,899 | 4.0 |
| DL | 532,617 | 14.9 | 584,287 | 14.9 |
| | 3,575,657 | 100.0 | 3,912,170 | 100.0 |

Management Discussion and Analysis

The Group experienced a decline in EPS revenue of US\$115.7 million for the year ended December 31, 2019 compared with 2018, largely reflecting lower OEM production levels in key geographic regions, most notably lower demand from key China OEM customers of the Company's Asia Pacific segment, as well as unfavourable foreign currency translation and customer pricing. The GM-UAW strike, which impacted the North America geographic segment, also contributed to the decline in EPS revenue compared with last year. These factors were partially offset by higher volumes from several key North America customers, including the current and carry-over impact from customer programme launches. CIS revenue declined by US\$150.5 million for the year ended December 31, 2019 compared with a year ago, largely reflecting the loss of revenue of US\$128.0 million associated with an on-going customer vehicle platform transition, as well as the impact of the North America GM-UAW strike. DL revenue declined by US\$51.7 million for the year ended December 31, 2019 compared with last year, with the North America GM-UAW strike and lower Asia Pacific OEM light vehicle production being the principal drivers of the decline. The decrease in HPS revenue resulted from lower production demand from a key customer as expected given the life-cycle maturity of this product line.

Net Profit Attributable to Equity Holders

The Group's net profit attributable to equity holders of the Company for the year ended December 31, 2019 was US\$232.4 million or 6.5% of total revenue, a decrease of US\$147.3 million or 38.8% compared to the year ended December 31, 2018 of US\$379.7 million, representing 9.7% of total revenue. The decrease was principally attributable to the following factors:

- Unfavourable foreign currency translation reflecting a stronger US dollar against both the RMB and Euro.
- Lower OEM light vehicle production across all regions served by the Company, in particular continued weakness in China demand; the loss of revenue from a North America customer vehicle platform transition unfavourably impacting the Company's CIS product line; and the temporary production interruption resulting from the GM-UAW strike in the third and fourth quarter of 2019 which impacted the Company's North America segment.
- Unfavourable volume and mix from lower revenue, customer pricing, increased depreciation and amortisation expense related to carry-over and current period new customer programme launches and impairment charges for customer programmes not achieving production expectations were only partially offset by net material and manufacturing efficiencies and selling, general and administrative cost reductions.
- Lower net finance costs driven by on-going debt amortisation and interest income from cash balances.
- Higher income tax expense principally reflecting a US\$27.1 million non-recurring US tax benefit associated with the company-specific US research tax credit initiative recognised in 2018.

Cost of Sales

The Group's cost of sales for the year ended December 31, 2019 was US\$3,037.0 million, a decrease of US\$206.3 million, or 6.4% from US\$3,243.3 million for the year ended December 31, 2018. The Group's cost of sales for the year ended December 31, 2019 primarily included raw material costs of US\$2,096.4 million (year ended December 31, 2018: US\$2,297.3 million).

Cost of sales decreased principally as a result of lower raw materials costs given the decline in revenue experienced by the Group during 2019 compared with a year ago. Material and manufacturing savings, net of inflationary factors, further lowered cost of sales in 2019, yet were partially mitigated by higher depreciation and amortisation as discussed below.

Management Discussion and Analysis

Depreciation and amortisation charged to cost of sales for the year ended December 31, 2019 was US\$207.7 million, an increase of US\$24.2 million, or 13.2%, from US\$183.5 million for the year ended December 31, 2018. The increase was primarily driven by an increase of US\$11.2 million related to increased product development cost amortisation discussed further below and an increase of US\$7.5 million related to depreciation of right-of-use assets resulting from the adoption of IFRS 16, *Leases*, as set out in notes 2 and 7 to the Consolidated Financial Statements.

For the year ended December 31, 2019, the Group also recorded as cost of sales impairment of property, plant and equipment in the amount of US\$6.5 million related to assets deployed in support of certain customer programmes in China with declining volumes.

Amortisation of capitalised product development costs recorded as cost of sales amounted to US\$92.6 million for the year ended December 31, 2019, representing 2.6% of revenue, an increase of US\$11.2 million, or 13.7%, from US\$81.4 million, representing 2.1% of revenue, for the year ended December 31, 2018. This increase reflects the impact of customer programmes launched into production during both 2018 and 2019. The Company expects amortisation expense of capitalised product development costs to continue to increase in future years with the start of production of new customer programmes that are currently in development.

For the year ended December 31, 2019, the Group recognised a product development intangible asset impairment of US\$19.6 million related to declining volumes on specific customer programmes and programme suspensions in China. The impairment is recorded in the consolidated income statement as cost of sales in the amount of US\$3.7 million and in engineering and product development costs in the amount of US\$15.9 million in the Asia Pacific (US\$6.9 million) and North America (US\$12.7 million) segments. The intangible asset impairment in the North America segment associated with customer programmes in China is due to the Company's US domiciled intellectual property holdings.

Gross Profit

The Group's gross profit for the year ended December 31, 2019 was US\$538.7 million, a decrease of US\$130.1 million, or 19.5%, from US\$668.8 million for the year ended December 31, 2018. Gross profit margin for the year ended December 31, 2019 was 15.1%, compared with 17.1% for the year ended December 31, 2018. The effect of unfavourable foreign currency translation, lower OEM light vehicle production and customer specific vehicle platform demand, customer pricing, higher depreciation and amortisation and impairment were only partially mitigated by material and manufacturing cost efficiencies, net of inflationary factors.

Engineering and Product Development Costs

For the year ended December 31, 2019, the Group's engineering and product development costs charged to the income statement were US\$129.1 million, representing 3.6% of revenue, an increase of US\$12.7 million, or 10.9%, as compared to US\$116.4 million, or 3.0% of revenue, for the year ended December 31, 2018. Capitalised interest related to engineering development costs totalled US\$14.6 million for the year ended December 31, 2019 and US\$13.2 million for the year ended December 31, 2018. Depreciation and amortisation charged to engineering and product development costs for the year ended December 31, 2019 was US\$9.8 million, an increase of US\$3.5 million, or 55.0%, from US\$6.3 million for the year ended December 31, 2018. The increase is primarily related to depreciation recorded on right-of-use assets in accordance with the Group's adoption of IFRS 16, *Leases*.

The Group's aggregate investment in engineering and product development costs is defined as the sum of costs charged to the consolidated income statement (excluding impairment charges associated with costs capitalised in prior periods) and total costs capitalised as intangible assets during the current period which will be amortised in future periods upon launch and start of production of related customer programmes. For the year ended December 31, 2019, the Group incurred an aggregate investment in engineering and product development costs of US\$296.3 million, an increase of US\$24.3 million, or 8.9%, compared with US\$272.0 million for the year ended December 31, 2018. The increase was driven by the Company's continued focus on expanding its global technical capabilities and resources to pursue and acquire new customer programmes as evidenced by the growth in the Backlog of Booked Business, as well as on-going investment in current product portfolio enhancements and ADAS and AD-enabling technologies.

Management Discussion and Analysis

Administrative Expenses

The Group's administrative expenses for the year ended December 31, 2019 were US\$120.1 million, representing 3.4% of revenue, a decrease of US\$3.6 million, or 2.9%, as compared to US\$123.7 million, or 3.2% of revenue, for the year ended December 31, 2018. Continuing efficiency efforts and focus on leveraging the Group's cost base were the principal factors contributing to the decrease. Favourable foreign currency translation, lower employee stock compensation and long-term incentive expense also provided a benefit to 2019 when compared with the prior year. Depreciation and amortisation charged to administrative expenses for the year ended December 31, 2019 was US\$8.8 million, an increase of US\$3.1 million, or 56.2%, from US\$5.7 million for the year ended December 31, 2018. The increase is primarily related to depreciation recorded on right-of-use assets in accordance with the Group's adoption of IFRS 16, *Leases*.

Other Gains, net

Other gains, net represents gains attributable to foreign exchange transactions, losses on disposal of property, plant and equipment and other items. Other gains, net for the year ended December 31, 2019 were US\$1.5 million, a decrease of US\$13.3 million compared to a gain of US\$14.8 million for the year ended December 31, 2018. The decrease was principally attributable to losses on the disposal of property, plant and equipment related to the restructuring of the Group's US DL business and a reduction of realised gains on foreign currency transactions in 2019 compared with the prior year.

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, 2019 were US\$4.9 million, a decrease of US\$4.4 million, or 46.7%, as compared to US\$9.3 million from the year ended December 31, 2018. Excluding the impact of the increase in borrowings related to the adoption of IFRS 16, *Leases*, on-going debt repayment and interest income from cash balances were the largest contributors to the reduction in finance costs, net during 2019 compared with the prior year.

Share of Loss of Joint Ventures, net

Share of loss of joint ventures, net relates to the Company's investments in CNXMotion, Dongfeng Nexteer and Chongqing Nexteer. For the year ended December 31, 2019, the Group's share of (loss) income in joint ventures amounted to (US\$3.5 million), (US\$1.0 million) and US\$0.7 million related to CNXMotion, Dongfeng Nexteer and Chongqing Nexteer, respectively (year ended December 31, 2018: (US\$2.8 million), (US\$2.2 million) and US\$0.6 million). CNXMotion was formed during the first half of 2017 and has incurred R&D costs focused on integrating lateral and longitudinal controls for mixed mode and AD applications. As a R&D entity, CNXMotion is not anticipated to generate direct revenue for the foreseeable future, but rather benefit the Company from the development and transfer of R&D that may be commercialised and used in the manufacture of future products. Dongfeng Nexteer was formed during 2017 and while production began during 2019, the JV has not yet commenced significant customer production to offset the current cost structure and investment as at December 31, 2019. Chongqing Nexteer's profitability during the year ended December 31, 2019 was consistent with the prior year.

Income Tax Expense

The Group's income tax expense was US\$29.3 million for the year ended December 31, 2019, representing 11.1% of the Group's profit before income tax, an increase of US\$3.3 million from US\$26.0 million, or 6.3% of profit before income tax, for the year ended December 31, 2018. Adjusting for the US\$27.1 million non-recurring benefit recognised in 2018 associated with company-specific US research tax credit initiatives, income tax expense was lower in 2019 by US\$23.8 million reflecting lower pre-tax operating profit when compared with last year.

Management Discussion and Analysis

COVID-19

As set out in note 5 to the Consolidated Financial Statements, the Company's China revenue, including both revenue derived from local OEM customers as well as export revenue, totalled US\$569.4 million for the year ended December 31, 2019. Due to the evolving developments and impacts associated with the COVID-19 outbreak in China, the Company's manufacturing facilities in China experienced a staggered restart to component production following the Lunar New Year holiday governed by local government restrictions and requirements. While the Company's China manufacturing operations have been able to meet customer production requirements, customer demand has significantly contracted to date adversely impacting OEM production. According to estimates from IHS Markit Ltd., February 2020 year-to-date OEM light vehicle production in China declined by 43% when compared with the same period in 2019, and for the first quarter ending March 31, 2020, IHS Markit Ltd. estimates China OEM light vehicle production to fall by 37% compared with the same period in 2019. The Company currently estimates Asia Pacific segment revenue will be unfavourably impacted by up to US\$40.0 million to US\$45.0 million, or 25% to 28%, for the first quarter of 2020 when compared with 2019 as a result of the COVID-19 outbreak in China.

Furthermore, the COVID-19 outbreak has also impacted the Company's global suppliers as well as suppliers who operate in China. These suppliers are relied upon for export of components used in the manufacturing of products provided to customers served by our North America, EMEASA and Asia Pacific segments. Working diligently with both customers and suppliers, the Company has been able to meet the production demand of its global OEM customers to date.

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic as the virus has continued to expand throughout Asia, Europe and North America, with many countries and jurisdictions declaring states of emergency and implementing public safety actions in an attempt to contain further spread. The Company has taken commensurate actions outlined by both health agencies, as well as complying with country specific mandates. During the course of March 2020, many of the Company's OEM customers announced plans to temporarily close their production facilities in Europe and North America. As a result, the Company is coordinating closely with each of its impacted customers and has closed or adjusted production at its facilities in the United States, Mexico, Poland and elsewhere as necessary. Given these customer actions, the Company's first half 2020 financial results are expected to be significantly lower compared with same period in 2019, however, the Company is unable to quantify the total financial impact of the on-going global pandemic at this time.

Given the rapidly developing worldwide situation regarding COVID-19 and its potential impacts on the economies of afflicted regions, and the inherent difficulty in predicting the potential impact on the Company's facilities, employees, customers, suppliers and logistics providers, the Company is unable to quantify any further potential impact of the COVID-19 pandemic at this time.

Provisions

As at December 31, 2019, the Group had provisions for restructuring, litigation, environmental liabilities, warranties and decommissioning of US\$84.1 million, a decrease of US\$5.0 million as compared to US\$89.1 million as at December 31, 2018. The decrease in provisions was principally due to the net change in warranty reserves reflecting US\$11.3 million in cash payments on historical warranty provisions during 2019. Additionally, the Company has continued its efforts and focus on improving product quality and manufacturing traceability and, as a result of these initiatives, the reversal of historical warranty provisions due to lower customer warranty settlements and future claims estimates partially offset new warranty provisions recorded during 2019.

Management Discussion and Analysis

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 borrowings from third-party financial institutions. We utilise a combination of strategies, including intercompany dividends, intercompany loan structures and other distributions and advances to provide the funds necessary to meet our global liquidity needs. The Company utilises a global cash pooling arrangement to consolidate and manage our global cash balances, which improves cash management efficiency. In recent years, the Group has invested extensively in capital equipment and engineering and product development costs in support of customer programmes. For the year ended December 31, 2019, the Group invested US\$200.6 million and US\$167.7 million in capital equipment and capitalised engineering product development costs, respectively.

The Group's use of cash for the year ended December 31, 2019 was directly related to its investment in capital and engineering and product development to support future growth. We believe that funds generated from operations and cash on hand will be adequate to fund our liquidity and capital requirements.

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

| | For the year ended December 31, 2019 US\$'000 | For the year ended December 31, 2018 US\$'000 |
|--|---|---|
| Cash generated from (used) in: | | |
| Operating activities | 491,241 | 613,202 |
| Investing activities | (373,356) | (303,705) |
| Financing activities | (184,160) | (212,277) |
| Net (decrease) increase in cash and cash equivalents | (66,275) | 97,220 |

Cash Flows Generated from Operating Activities

For the year ended December 31, 2019, the Group's net cash generated from operating activities was US\$491.2 million, a decrease of US\$122.0 million compared with US\$613.2 million for the year ended December 31, 2018. The decrease in cash flows from operating activities was primarily attributable to lower net profit and the timing of collection of customer trade receivables, partially offset by a decrease in net cash taxes paid as a result of a significant income tax receivable as at December 31, 2018 which was collected during 2019.

Cash Flows Used in Investing Activities

The Group's cash flows used in investing activities primarily reflect capital spending for purchases of machinery, equipment and tooling and capitalised engineering and product development costs as intangible assets to support customer programmes.

Management Discussion and Analysis

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

| | For the year ended December 31, 2019 US\$'000 | For the year ended December 31, 2018 US\$'000 |
|---|---|---|
| Purchase of property, plant and equipment | (200,607) | (158,306) |
| Addition of intangible assets and land use rights | (167,720) | (144,744) |
| Proceeds from sale of property, plant and equipment | 1,328 | 2,744 |
| Change in restricted bank deposits | (8) | 6,905 |
| Investment in joint ventures | (6,349) | (10,304) |
| Net cash used in investing activities | (373,356) | (303,705) |

Cash Flows Used in Financing Activities

For the year ended December 31, 2019, the Group's net cash used in financing activities was US\$184.2 million, a decrease of US\$28.1 million compared with US\$212.3 million for the year ended December 31, 2018. The main contributor to the decrease in net cash used in financing activities was lower net repayments of borrowings during 2019 as the Company repaid in full the outstanding balance of a US term loan in 2018. Lower net repayments of borrowings were partially offset by an increase in dividends paid during 2019 as a result of increased net profits for the year ended December 31, 2018 as compared to 2017. In 2019, cash flows used in financing activities were mainly comprised of net repayment of borrowings of US\$82.3 million, finance costs paid of US\$26.6 million, dividends paid to shareholders of the Company of US\$77.7 million, partially offset by proceeds from exercise of share options of US\$2.5 million.

Indebtedness

As at December 31, 2019, the Group's total borrowings was US\$369.3 million, a decrease of US\$12.5 million from US\$381.8 million as at December 31, 2018. This decrease is primarily due to the repayment of maturing debt, partially offset by the adoption of IFRS 16, *Leases*, which required the Group to record lease liabilities for certain leases with terms extending beyond 12 months.

The following table sets forth the balances of current and non-current borrowing obligations within the Group for the years indicated:

| | December 31, 2019 US\$'000 | December 31, 2018 US\$'000 |
|------------------------|----------------------------------|----------------------------------|
| Current borrowings | 58,825 | 64,347 |
| Non-current borrowings | 248,829 | 312,294 |
| Lease liabilities | 61,672 | 5,113 |
| Total borrowings | 369,326 | 381,754 |

Management Discussion and Analysis

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

| | For the year ended December 31, 2019 US\$'000 | For the year ended December 31, 2018 US\$'000 |
|-----------------------|---|---|
| Within 1 year | 71,116 | 66,228 |
| Between 1 and 2 years | 259,648 | 65,067 |
| Between 2 and 5 years | 24,386 | 250,459 |
| Over 5 years | 14,176 | – |
| Total borrowings | 369,326 | 381,754 |

Details of the borrowings of the Group during the year are set out in note 17 to the Consolidated Financial Statements.

Pledge of Assets

The Group has secured borrowings at certain subsidiaries. Assets securing the borrowings differ by site and include accounts receivable, inventories, property, plant and equipment. As at December 31, 2019, the Group had total assets pledged as collateral of US\$491.3 million, an increase of US\$62.6 million as compared with US\$428.7 million as at December 31, 2018. The increase in collateral pledged is directly related to increases in the balances of the underlying assets pledged. No significant changes in collateral arrangements have occurred from December 31, 2018 to December 31, 2019.

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.

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, 2019 was 19.9%, a decrease of 240 basis points as compared to 22.3% as at December 31, 2018. The gearing ratio decreased as a result of the paydowns on existing borrowings partially offset by an increase in lease liabilities due to the adoption of IFRS 16, *Leases*.

Management Discussion and Analysis

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 Nexteer differentiators in a competitive landscape:

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
5. Global manufacturing footprint and prowess

Our global footprint continues to enable our capitalisation of the market transition to EPS and continued growth prospects 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 ADAS and AD-enabling technologies such as SbW. The Company’s strong financial position also provides the opportunity to pursue selected strategic alliances and/or acquisitions to expand our technical capabilities and resources, product portfolio and geographic market and customer access.

Employees and Remuneration Policy

As at December 31, 2019, the Group had approximately 12,800 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. We offer training programmes to our full-time employees and contract personnel 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.

The Group also uses contract personnel to support the workload of the business where considered the most efficient. As at December 31, 2019, we had approximately 1,000 personnel engaged on a contract basis.

FORWARD LOOKING STATEMENTS

Any forward-looking statements and opinions contained within this Annual Report are based on current plans, estimates and projections, and therefore involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Company, the Directors and the employees of the Company assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this Annual Report; and (b) no liability in the event that any of the forward looking statements or opinions do not materialise or turn out to be incorrect.

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, 2019 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) ⁽¹⁾ | 55 | Executive Director, Chief Executive Officer and Vice Chairman | June 15, 2013, June 2012 and June 3, 2019 (formerly Chairman on June 15, 2013), respectively | Overseeing our Group's strategic vision, direction and goals and overseeing the overall execution of our Group's strategy |
| RICHARDSON, Michael Paul ⁽²⁾ | 63 | Executive Director and President | June 15, 2013 and October 1, 2016, respectively | Overseeing our Group's strategic planning |
| FAN, Yi (樊毅) | 53 | Executive Director, Vice President and Company Secretary | August 21, 2012, November 14, 2013 and October 19, 2018 | Managing our Group's operations and handling of company secretarial duties |
| Non-Executive Directors | | | | |
| WANG, Jian (王堅) ⁽³⁾ | 58 | Chairman and Non-Executive Director | June 3, 2019 | As a non-Executive Director |
| ZHANG, Jianxun (張建勛) | 40 | Non-Executive Director | March 13, 2018 | As a non-Executive Director |
| LIU, Ping (劉平) ⁽⁴⁾ | 51 | Non-Executive Director | June 3, 2019 | As a non-Executive Director |
| YANG, Shengqun (楊勝群) ⁽⁵⁾ | 49 | Non-Executive Director | March 14, 2017 | As a non-Executive Director |
| Independent Non-Executive Directors | | | | |
| LIU, Jianjun (劉健君) | 51 | Independent non-Executive Director | June 15, 2013 | As an Independent non-Executive Director |
| WEI, Kevin Cheng (蔚成) | 52 | Independent non-Executive Director | June 15, 2013 | As an Independent non-Executive Director |
| YICK, Wing Fat Simon (易永發) | 61 | Independent non-Executive Director | August 15, 2017 | As an Independent non-Executive Director |

Notes:

- (1) Mr. ZHAO, Guibin became Vice Chairman and no longer served as Chairman with effect from June 3, 2019.
- (2) Mr. RICHARDSON, Michael Paul retired as our Executive Director and President with effect from January 1, 2020 due to his decision to retire.
- (3) Mr. WANG, Jian was appointed as our non-Executive Director and Chairman with effect from June 3, 2019.
- (4) Mr. LIU, Ping was appointed as our non-Executive Director with effect from June 3, 2019.
- (5) Mr. YANG, Shengqun retired as our non-Executive Director with effect from June 3, 2019 due to work re-allocation.

Directors and Senior Management

Executive Directors

ZHAO, Guibin (趙桂斌), (Vice Chairman and Chief Executive Officer), aged 55, was appointed as our Executive Director on June 15, 2013 and has successively acted as Chairman of the Board from June 15, 2013 and as Vice Chairman from June 3, 2019. Mr. ZHAO is also our Chief Executive Officer since June 2012. Mr. ZHAO has over 20 years of relevant experience in the automotive industry. As the Vice Chairman of the Board, Mr. ZHAO is primarily responsible for assisting Chairman to arrange and convene shareholder and Board meetings, supervising the implementation of the relevant resolutions and acting on behalf of the Chairman upon delegation by the Chairman or when the Chairman is incapable to act. As the Chief Executive Officer, he is primarily responsible for leading Nexteer's Global Strategy Council (**GSC**), setting our strategic vision, direction and goals and overseeing the overall execution of our Group's strategy. He sets the strategic direction of the Company, acts as "bridge" between senior management and the Board, is responsible for the Company's new product lines and advanced engineering (business development), joint ventures and M&A activities, maintains relationships with major external stakeholders, chooses and manages the senior management team, determines overall incentive compensation targets and communicates internally. Mr. ZHAO is also the chief executive officer and the chairman of the board of directors of Nexteer Automotive Corporation, one of our indirectly wholly-owned subsidiaries. He held the position as deputy chief economist of Aviation Industry Corporation of China, Ltd. (**AVIC**), our controlling shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **Hong Kong Stock Exchange**)), from February 2010 to June 2016. He held the positions as general manager and chairman of the board of directors of AVIC Automotive Systems Holding Co., Ltd. (**AVIC Auto**), a subsidiary of AVIC, our controlling shareholder, from 2009 to October 2018. Mr. ZHAO had been the chairman of the board of directors of Pacific Century Motors, Inc. (**PCM China**), our controlling shareholder, from December 2010 to February 2019 and has been the President of PCM China since February 2019. From August 2016 to November 2019, Mr. ZHAO has been chairman of the board of directors of AVIC Hande (Beijing) Investment Holding Co., Ltd. and Henniges Automotive Holdings, Inc., both of which are non wholly-owned subsidiaries of AVIC Auto. From December 2015 to March 2017, 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 held the positions 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) from August 2003 to January 2009. 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.

FAN, Yi (樊毅), aged 53, 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 Vice President on November 14, 2013. He had served as our Joint Company Secretary since January 28, 2013 until he became the sole Company Secretary with effect from October 19, 2018. 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 20 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 from January 2012 to February 2019; General Manager from July 2013 to February 2019 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. 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 Co., Ltd., 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.

Directors and Senior Management

Non-Executive Directors

WANG, Jian (王堅), (Chairman), aged 58, was appointed as our non-Executive Director and Chairman of the Board on June 3, 2019. Mr. WANG has over 26 years of relevant experience in the automotive industry. As the Chairman of the Board, Mr. WANG is primarily responsible for chairing Board and shareholder meetings and setting agendas, as well as facilitating communication between the Board and management. Mr. WANG has been appointed as Chief Economist of AVIC, our controlling shareholder, since January 2018. From May 2014 to September 2018, he was a Director and the Chairman of the Board of AVIC Electromechanical Systems Co., Ltd. (Stock Code: 002013.SZ), a wholly-owned subsidiary of AVIC. From February 2010 to September 2018, he was a Director, Executive Director and General Manager of Aviation Electromechanical Systems Company Limited, a wholly-owned subsidiary of AVIC. From January 2013 to May 2014, he was the Chairman of the Board of Hubei Aviation Precision Machinery Technology Co., Ltd. (known as AVIC Electromechanical Systems Co., Ltd. since February 2014), a non wholly-owned subsidiary of AVIC. From February 2009 to February 2010, he was the Deputy General Manager of AVIC Electromechanical Systems Co., Ltd., a wholly-owned subsidiary of AVIC. From March 2006 to May 2012, he was a Director of China National Aero-Technology Import & Export Corporation, a wholly-owned subsidiary of AVIC, and AVIC International Holding Corporation, a non wholly-owned subsidiary of AVIC, respectively. From October 1998 to February 2010, he was the head of the research center of the Jincheng Nanjing Engineering Institute of Aircraft Systems, a non wholly-owned subsidiary of AVIC. From October 1998 to February 2010, he successively served as a Director, Deputy General Manager, General Manager, Vice Chairman of the Board, as well as Chairman of the Board and General Manager of Jincheng Group Co. Ltd., a wholly-owned subsidiary of AVIC. From August 1982 to September 1998, he successively acted as a technician, head of technical section, head of technical transformation section, head of planning department, head of production department, general manager and chief economist of motor business division, director of technical centre, director of quality control centre, deputy general manager and general manager of Jincheng Machinery Co., Ltd. (金城機械有限公司) (formerly as Jincheng Machinery Plant (金城機械廠)), a wholly-owned subsidiary of AVIC. Mr. WANG holds a postgraduate master's degree. He graduated in July 1982 from Nanjing Aeronautical Institute, China (now known as Nanjing University of Aeronautics and Astronautics, China) with a bachelor's degree majoring in machinery manufacturing engineering. He graduated in March 2003 from Beijing University of Aeronautics and Astronautics, China with a master's degree in economics and obtained a master's degree in business administration from Cheung Kong Graduate School of Business, China in December 2010.

ZHANG, Jianxun (張建勳), aged 40, 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**) from November 2017 to July 2018, and the Deputy General Manager of Beijing E-Town since July 2018. Mr. ZHANG has been the Chairman of the Board of Directors and General Manager of Beijing Mobile E-Town Co., Ltd. from April 2016 to September 2018. He served as 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 Co., Ltd./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.

LIU, Ping (劉平), aged 51, was appointed as our non-Executive Director on June 3, 2019. Mr. LIU served as the Chairman of the Board of AVIC Auto (a subsidiary of AVIC), our controlling shareholder, since January 2019. From September 2014 to January 2019, he was the General Manager of AVIC Asset Management Co., Ltd., a wholly-owned subsidiary of AVIC. From January 2009 to September 2014, he successively served as the General Manager and Chairman of the Board of AVIC Sichuan Assets Operation and Management Co., Ltd. (formerly known as AVIC Sichuan Bureau (中航工業四川局)). From April 2004 to January 2009, he was the Deputy General Manager and General Counsel of Chengdu Engine (Group) Co., Ltd., a wholly-owned subsidiary of AVIC. From May 2003 to April 2004, he was the Deputy Manager, Capital Finance Department of Sichuan Provincial Investment Group Co., Ltd. From February 2001 to May 2003, he was an assistant to the chief accountant of Chengdu Engine (Group) Co., Ltd. From September 1997 to February 2001, he successively served as Chief Accountant and Head of Finance Department, Deputy General Manager and the Chief Accountant of Chengdu Xinxing Electrical Appliance Co., Ltd. From July 1987 to September 1997, he successively acted as accountant in Finance Division, Chief of Finance in Supply Division and Deputy Director of Finance of Chengdu Engine (Group) Co., Ltd.. Mr. LIU holds a postgraduate master's degree. He graduated in July 1987 from Zhengzhou Institute of Aeronautical Industry Management, China and obtained an executive master's degree in business administration from the University of Electronic Science and Technology of China, China in 2012.

Directors and Senior Management

Independent Non-Executive Directors

LIU, Jianjun (劉健君), aged 51, 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, Beijing (北京中盛律師事務所), 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, Beijing (北京中倫文德律師事務所), 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 52, 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 business. Mr. WEI has held the following independent non-executive directorships in publicly listed companies: as an independent non-executive director, the chairman of the audit committee and member of the remuneration committee of the board of Alphamab Oncology, a company listed on the Hong Kong Stock Exchange (stock code: 9966), since December 12, 2019; and as an independent non-executive director and the chairman of audit committee of Tibet Water Resources Ltd., a company listed on Hong Kong Stock Exchange (stock code: 1115), since March 2011; and as an independent director and the audit committee chair of Alpha Peak Leisure Inc., a company listed on Toronto Stock Exchange (TSX-V: AAP), since November 2017. Mr. WEI's prior directorship include an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of the board of Wisdom Sports Group, a company listed on Hong Kong Stock Exchange (stock code: 1661) from June 2013 to February 2018, and an independent director and the chairman of audit committee of the board of Hunter Maritime Acquisition Corp., a company which was listed on NASDAQ (ticker symbol: HUNT) and delisted from NASDAQ in 2019 from April 2019 to July 2019. 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 (ticker symbol: SOLF), a NASDAQ listed solar company (now known as Hanwha SolarOne Co., Ltd. and relisted on NASDAQ as Hanwha SolarOne (ticker symbol: 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.

YICK, Wing Fat Simon (易永發), aged 61, was appointed as our Independent non-Executive Director on August 15, 2017. Mr. YICK has over 32 years of experience in audit, direct investment, investment banking and corporate advisory services. Since October 1, 2019, Mr. YICK has also been appointed as the Independent Non-Executive Director, chairman of audit committee and remuneration committee, member of nomination committee of Modern Media Holdings Limited (Stock code: 72). 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 Co., Ltd. (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.

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, 2019 and as at the date of this annual report:

| Name | Age | Position/Title |
|---------------------------|-----|---|
| LIU, Tao (柳濤) | 54 | President and Global Chief Operating Officer |
| QUIGLEY, William G. | 58 | Senior Vice President and Chief Financial Officer |
| MILAVEC, Robin Zane | 52 | Senior Vice President, Chief Technology Officer, Chief Strategy Officer |
| HOEG, Dennis Steven | 64 | Vice President and Divisional President – North America Division |
| BOYER, Herve Paul | 49 | Vice President and Divisional President – EMEASA Division |
| FAN, Jianqing David (樊堅強) | 51 | Vice President and Divisional President – APAC Division |
| LI, Jun (李軍) | 48 | Vice President, Global Product Line |
| PASTOR, Ricardo Antonio | 54 | Vice President, Global Quality and Programme Launch |
| ZIPARO, Peter Michael | 50 | Vice President and General Counsel |
| BENSON, OT | 45 | Vice President, Global Sales and Marketing |
| XU, Cathy (許瑩) | 50 | Vice President, Global Human Resources |

LIU, Tao (柳濤), aged 54, was appointed as our President and Global Chief Operating Officer on March 29, 2020. Mr. LIU has approximately 20 years of relevant experience in the automotive industry. He is a member of the Company's Global Strategy Council. He is responsible for reporting to the Chief Executive Officer and overseeing our Group's global functions including sales, engineering, operations and global supply management and is in charge of overseeing our Group's product lines. After October 1, 2016 Mr. LIU served as Senior Vice President and Global Chief Operating Officer. From August 2013 to October 2016, Mr. LIU served as our Vice President and Chief Operating Officer – China Division. He was responsible for the business plan, the overall financial position and advising on strategic direction of the division. 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 USA, in 2001.

QUIGLEY, William G., aged 58, 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, tax 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 USA, in 1983 and became a member of the American Institute of Certified Public Accountants in 1986.

Directors and Senior Management

MILAVEC, Robin Zane, aged 52, was appointed as our Senior Vice President, Chief Technology Officer and Chief Strategy Officer on July 1, 2019. He is responsible for integrating corporate strategy, driving product and process innovation, and positioning Nexteer as a technology leader with new market opportunities. He also has responsibility for Global Engineering, including R&D, technology, product portfolio and production support. 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 Vice President of Global Engineering from January 2018 to July 2019, Vice President of Global Current Product Engineering from June 2017 to January 2018, 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, the USA, in 1989 and a Masters' degree in mechanical engineering from the University of Michigan in Ann Arbor, the USA, in 1992.

HOEG, Dennis Steven, aged 64, was appointed as our Vice President and Divisional President – 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 USA, in May 1978, and a Master of Science from Purdue University, the USA, in May 1983.

BOYER, Herve Paul, aged 49, was appointed as our Vice President Divisional President – EMEASA 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 to July 2014 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 USA, in 2014.

Directors and Senior Management

FAN, Jianqing David (樊堅強), aged 51, was appointed as our Vice President and Divisional President – APAC Division on March 29, 2020. He is responsible for the entire Asia Pacific business, 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. FAN has over 23 years of relevant experience in the automotive industry. Prior to joining Nexteer, he spent several years within the Delphi group where he served as Vice President and President of China operations from July 2019 to December 2019. He also served as Managing Director of Asia Pacific for Delphi ICE from 2017 to 2019, Managing Director of Asia Pacific for Delphi Powertrain FIS from 2016 to 2017, and Managing Director of China for Delphi Diesel Systems from 2015 to 2016. Prior to this, Mr. FAN spent 17 years within Tenneco where he served as General Manager of Asia Pacific from January 2015 to August 2015. He served as General Manager of China from 2011 to 2015, and previously served as Commercial and Sales Director of China from 2007 to 2011. Following a number of assignments that included Project Engineer, Engineering Manager, and Director of Engineering, he served as General Manager of Tenneco's technical center in China from 2006 to 2007. Mr. FAN obtained a bachelor's degree from the University of Science and Technology of China in 1991, a doctorate degree in mechanical engineering from the University of Pittsburgh in 1997, and a master's degree in business administration from the University of Michigan in 2005.

LI, Jun (李軍), aged 48, was appointed as our Vice President, Global Product Line on January 1, 2020. 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 Vice President and Divisional President – Asia Pacific Division from November 2017 to January 2020 and he was 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. From October 2016 to November 2017 Mr. LI was Executive Director and Chief Operating Officer – Asia Pacific Division with the same responsibility. 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 operations of Nexteer Automotive (Suzhou) Co., Ltd. From 2010 to May 2012, Mr. LI served as Plant Manager and was responsible for the overall operational management of Nexteer Suzhou Plant 53. During 2008 and 2010, he took the role as Programme Manager of China's first EPS Programme 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.

PASTOR, Ricardo Antonio, aged 54, 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 USA, in 1987 and a Master of Science degree in electrical engineering from Oakland University, the USA, in 1990.

Directors and Senior Management

ZIPARO, Peter Michael, aged 50, 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 USA, in May 1991 and a Juris Doctor degree, magna cum laude, from Albany Law School, the USA, in May 1994.

BENSON, OT, aged 45, was appointed as our Vice President, Global Sales and Marketing on January 2, 2019 and is responsible for global sales and marketing – leading cross functional teams to achieve strategic sales goals. Mr. BENSON is a member of the GSC. He offers almost 15 years of service in the automotive industry, primarily within global supply chain management, in addition to 8 years of active duty service in the United States Air Force. Mr. BENSON most recently served as Vice President, Global Supply Management (**GSM**) since June 2018 and Director of North America GSM since 2013. In these roles, Mr. BENSON was responsible for managing supply chain operations, developing supplier relationships and delivering benchmark material cost, quality and launch performance to our North American plants in the US and Mexico. In 2017, Mr. BENSON rejoined Nexteer after serving two years as Vice President of Global Procurement at Nidec Motor Corporation. Mr. BENSON began his career with Delphi Steering's GSM team in 2005, where he held positions including China Business Line Purchasing Manager, Suzhou Steering Purchasing Manager and Enterprise Commodity Manager. Mr. BENSON holds a Bachelor of Science in marketing and Asian studies from Utah State, the USA; a Master of Business Administration in International Management from East Carolina University, the USA; and a Master of Arts in Chinese linguistics from the University of Hawaii at Manoa, the USA.

XU, Cathy (許瑩), aged 50, was appointed as our Vice President, Global Human Resources (**HR**) on June 4, 2018 and is responsible for all HR activities, including leading the global HR team to cultivate our One Nexteer culture at all levels of the organisation. Ms. XU is a member of the GSC. She offers more than 12 years of service in the automotive industry and the HR function. Ms. XU most recently served as Executive Director, Global HR since June 2017. In this role, Ms. XU was responsible for establishing global HR strategies and enhancing the global HR team's competencies. Ms. XU joined the Company in 2006, based in Suzhou, China, where she has served as Divisional HR Director of Asia Pacific, Country HR Director of China and Plant HR Manager of Suzhou, China. Ms. XU holds a Bachelor of Science in business administration and a Master of Executive Business Administration from Nanjing University, China.

During the first half of 2019, the Company changed the titles of its divisional chief operating officers, namely Messrs. HOEG Dennis, LI Jun and BOYER Herve to divisional presidents to better align with external practices.

With effect from July 1, 2019, Mr. KALKMAN Jesse retired as Vice President, Chief Strategy Officer.

With effect from December 1, 2019, Mr. SPICER Steven retired as Vice President, Global Electric Power Steering.

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 (as amended), 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, 2019 and a discussion on the Group's future prospects are provided in the Management Discussion and Analysis on pages 36 through 47 and in the CEO's Statement on pages 33 through 35. An analysis of the Group's performance during the year using financial key performance indicators is provided within the Financial Highlights on page 32. 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 74 through 85 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 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. Some of our contracts with GM that are governed by the supply agreement have expired and the remaining contracts are expected to expire by the end of 2020. For the years ended December 31, 2018 and 2019, our largest customer, GM, accounted for approximately 42% and 39% 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 58.6% and 58.7% of our consolidated revenues for the years ended December 31, 2019 and 2018, 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; an outbreak of a contagious disease, an epidemic or pandemic or other public health crises, which may cause us or our suppliers and/or customers to temporarily suspend operations in the affected city or country; 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, 2019, we had approximately US\$369.3 million of outstanding indebtedness, as well as US\$375.3 million available but 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, 2019 reflects a carrying amount of capitalised engineering and product development costs of US\$622.0 million and a carrying amount of property, plant and equipment of US\$989.8 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 as set out in notes 2.10, 6 and 9 to the Consolidated Financial Statements.

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, 2019, our consolidated balance sheet includes provisions totalling US\$62.3 million related to estimated warranty and product liability obligations.

Information Technology

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

Income Tax Legislation and Regulatory Environment

The Organisation for Economic Co-operation and Development (**OECD**), which represents a coalition of member countries, has recommended changes to numerous long-standing tax principles relating to Base Erosion and Profit Shifting (**BEPS**). These changes are being adopted and implemented by many of the countries in which we do business and may increase our taxes in these countries. In addition, the European Commission has launched several initiatives to implement BEPS actions including anti-tax avoidance directives (**ATAD I & II**), a proposal to address the allocation of taxing rights between jurisdictions (Pillar One) and a proposal that calls for the development of a coordinated set of rules to address ongoing risks from structures that allow multinational enterprises to shift profit to jurisdictions where they are subject to no or very low taxation (Pillar Two). It is unclear at present if and how these initiatives will be implemented by the European Union countries. The shape and implementation of this reform may adversely impact our consolidated effective tax rate.

In December 2017, the US enacted the Tax Cuts and Jobs Act of 2017 (**US Tax Act**). The US Tax Act includes a number of significant changes to existing US corporate tax laws that impact the Company. These changes include, among other things, a corporate income tax rate reduction from 35% to 21%, a deduction for Foreign-Derived Intangible Income (**FDII**), and the elimination or reduction of certain US deductions and credits including limitations on the deductibility of interest expense. The US Tax Act also transitions US international taxation from a worldwide system to a modified territorial system. This modified territorial system includes the establishment of a minimum tax on certain payments from the Company's US subsidiaries to related foreign persons as a base erosion and anti-abuse tax (**BEAT**) became effective in 2018. During 2018 and 2019, the US Internal Revenue Service issued various forms of guidance (e.g., Notices of proposed rulemaking and proposed/final Treasury regulations) implementing and clarifying aspects of the US Tax Act and other related topics, such as the BEAT, FDII, foreign tax credit computations, interest expense limitations under Section 163(j), and deductibility of interest and/or royalty payments made by US corporate taxpayers to foreign related parties in so-called "hybrid mismatch" arrangements under section 267A. The Company has considered all guidance issued and reflected any changes in the income tax provision for the year ended December 31, 2019. Additional guidance on many other aspects of the US Tax Act, and the finalisation of certain proposed regulations, is still in process and expected to be released in the near future.

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. are expected to maintain high-tech certificates, which will expire in 2020, 2021 and 2021, 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, but may be continued by the Chinese government beyond this date. The Company intends to pursue this opportunity.

Any of these changes could impact the Company, our shareholders, and affiliates, and could adversely affect the Company by changing our effective tax rate and limiting the Company's ability to utilise cash in a tax efficient manner.

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.

Directors' Report

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\$81.5 million, or US\$0.0325 per Share, which represents slightly above 35% of net profit for the year ended December 31, 2019 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, 2019, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, amounted to approximately US\$532.6 million (as at December 31, 2018: US\$576.5 million).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2019 are set out in note 34 to the Consolidated Financial Statements.

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 25 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, 2019, 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, 2019.

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. In accordance with the Environmental, Social and Governance Reporting Guide, as set out in Appendix 27 to the Listing Rules, details of the above information will be set out in our ESG report (annual Sustainability Report), which is to be published on www.nexteer.com within 3 months of the issuance of this annual report.

CHARITABLE DONATIONS

During 2019, the charitable contributions and other donations made globally by us amounted to US\$0.5 million.

In 2019, our employees volunteered more than 15,500 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, 2019 and as at the date of this annual report were as follows:

Executive Directors

ZHAO, Guibin (趙桂斌) (*Vice Chairman*) (became Vice Chairman and no longer served as Chairman with effect from June 3, 2019)

RICHARDSON, Michael Paul (retired with effect from January 1, 2020)

FAN, Yi (樊毅)

Non-Executive Directors

WANG, Jian (王堅) (*Chairman*) (appointed with effect from June 3, 2019)

ZHANG, Jianxun (張建勛)

LIU, Ping (劉平) (appointed with effect from June 3, 2019)

YANG, Shengqun (楊勝群) (retired with effect from June 3, 2019)

Independent Non-Executive Directors

LIU, Jianjun (劉健君)

WEI, Kevin Cheng (蔚成)

YICK, Wing Fat Simon (易永發)

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

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, three Directors, namely, non-Executive Director 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 2019 interim report of the Company.

Directors' Report

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, 2019 or June 3, 2019, which shall be renewed as determined by the Board or the shareholders of the Company. 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 13, 2018 or June 3, 2019, 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 August 15, 2017 or June 15, 2019, 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).

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, 2019 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, 2019, 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, 2019 are set out in note 36 to the Consolidated Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2019, the percentage of purchases attributable to the Group's major suppliers is as follows:

- the largest supplier: 13%
- five largest suppliers in aggregate: 37%

During the year ended December 31, 2019, the percentage of revenues attributable to the Group's major customers is as follows:

- the largest customer: 39%
- 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 interests in the abovementioned 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).

Directors' Report

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 9.96% 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 a 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 a 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 a general meeting with such Participant and his associates abstaining from voting.
- (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 a 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.

Directors' Report

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 4 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, 2019 are as follows:

| | Grant date | Options Granted | Options held at January 1, 2019 | Options granted during the year | Options exercised during the year | Options cancelled/ lapsed during the year | Options held at December 31, 2019 | 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 | - | - | - | 1,667,970 | June 11, 2014– June 10, 2024 | 5.150 | 5.150 | N/A |
| | June 10, 2015 | 1,667,970 | 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 | - | - | 555,990 | 1,111,980 | June 10, 2016– June 9, 2026 | 7.584 | 7.340 | N/A |
| | May 29, 2017 | 1,667,970 | 1,667,970 | - | - | 555,990 | 1,111,980 | May 29, 2017– May 28, 2027 | 11.620 | 11.620 | N/A |
| | May 30, 2018 | 1,667,970 | 1,667,970 | - | - | - | 1,667,970 | May 30, 2018– May 29, 2028 | 12.456 | 11.960 | N/A |
| | August 21, 2019 | 1,667,970 ⁽⁴⁾ | - | 1,667,970 | - | - | 1,667,970 | August 21, 2019– August 20, 2029 | 6.390 | 6.390 | N/A |
| FAN, Yi | June 11, 2014 | 526,730 | 526,730 | - | - | - | 526,730 | June 11, 2014– June 10, 2024 | 5.150 | 5.150 | N/A |
| | June 10, 2015 | 526,730 | 526,730 | - | - | - | 526,730 | June 10, 2015– June 9, 2025 | 8.610 | 8.480 | N/A |
| | June 10, 2016 | 526,730 | 526,730 | - | - | 175,570 | 351,160 | June 10, 2016– June 9, 2026 | 7.584 | 7.340 | N/A |
| | May 29, 2017 | 526,730 | 526,730 | - | - | 175,580 | 351,150 | May 29, 2017– May 28, 2027 | 11.620 | 11.620 | N/A |
| | May 30, 2018 | 526,730 | 526,730 | - | - | - | 526,730 | May 30, 2018– May 29, 2028 | 12.456 | 11.960 | N/A |
| | August 21, 2019 | 526,730 | - | 526,730 | - | - | 526,730 | August 21, 2019– August 20, 2029 | 6.390 | 6.390 | N/A |
| RICHARDSON, Michael Paul ⁽⁴⁾ | May 29, 2017 | 2,633,650 | 2,633,650 | - | 877,890 | 877,880 | 877,880 | May 29, 2017– May 28, 2027 | 11.620 | 11.620 | 12.325 |
| | May 30, 2018 | 2,633,650 | 2,633,650 | - | - | - | 2,633,650 | May 30, 2018– May 29, 2028 | 12.456 | 11.960 | N/A |
| | August 21, 2019 | 2,633,650 | - | 2,633,650 | - | - | 2,633,650 | August 21, 2019– August 20, 2029 | 6.390 | 6.390 | N/A |
| ZHANG, Jianxun | May 30, 2018 | 351,150 | 351,150 | - | - | - | 351,150 | May 30, 2018– May 29, 2028 | 12.456 | 11.960 | N/A |
| | August 21, 2019 | 351,150 | - | 351,150 | - | - | 351,150 | August 21, 2019– August 20, 2029 | 6.390 | 6.390 | N/A |
| LIU, Ping | August 21, 2019 | 351,150 | - | 351,150 | - | - | 351,150 | August 21, 2019– August 20, 2029 | 6.390 | 6.390 | N/A |
| WANG, Jian | August 21, 2019 | 702,300 | - | 702,300 | - | - | 702,300 | August 21, 2019– August 20, 2029 | 6.390 | 6.390 | N/A |
| YANG, Shengqun ⁽⁴⁾ | May 29, 2017 | 351,150 | 351,150 | - | - | 351,150 | - | May 29, 2017– May 28, 2027 | 11.620 | 11.620 | N/A |
| | May 30, 2018 | 351,150 | 351,150 | - | - | 351,150 | - | May 30, 2018– May 29, 2028 | 12.456 | 11.960 | N/A |
| Sub-total | | 23,527,200 | 17,294,250 | 6,232,950 | 877,890 | 3,043,310 | 19,606,000 | | | | |
| All Other Participants (in aggregate) | June 11, 2014 | 9,042,160 | 351,150 | - | - | - | 351,150 | June 11, 2014– June 10, 2024 | 5.150 | 5.150 | N/A |
| | June 10, 2015 | 8,164,290 | 526,720 | - | - | - | 526,720 | June 10, 2015– June 9, 2025 | 8.610 | 8.480 | N/A |
| | June 10, 2016 | 8,407,790 | 2,584,510 | - | 505,990 | 1,046,820 | 1,031,700 | June 10, 2016– June 9, 2026 | 7.584 | 7.340 | 12.331 |
| | May 29, 2017 | 6,739,810 | 5,335,200 | - | 455,990 | 2,129,560 | 2,749,650 | May 29, 2017– May 28, 2027 | 11.620 | 11.620 | 12.433 |
| | May 30, 2018 | 7,442,120 | 7,442,120 | - | - | 877,880 | 6,564,240 | May 29, 2017– May 28, 2027 | 12.456 | 11.960 | N/A |
| | August 21, 2019 | 7,442,120 | - | 7,442,120 | - | 526,730 | 6,915,390 | August 21, 2019– August 20, 2029 | 6.390 | 6.390 | N/A |
| Sub-total | | 47,238,290 | 16,239,700 | 7,442,120 | 961,980 | 4,580,990 | 18,138,850 | | | | |
| Total | | 70,765,490 | 33,533,950 | 13,675,070 | 1,839,870 | 7,624,300 | 37,744,850 | | | | |

Directors' Report

Notes:

- (1) The Options granted in 2014, 2015, 2016, 2017, 2018 and 2019 must be held for one year from June 11, 2014, June 10, 2015, June 10, 2016, May 29, 2017, May 30, 2018 and August 21, 2019, 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 the share option.
- (2) The exercise price for the Options granted on June 11, 2014 was the closing price of the shares quoted on The Stock Exchange of Hong Kong Limited (the **Stock Exchange**) on the trading day on the Date of Grant of the Options. The exercise price for the Options granted on June 10, 2015 and June 10, 2016 was the average closing price for five consecutive trading days prior to the Date of Grant of the Options. The exercise price for the Options granted on May 29, 2017 was the closing price of the shares quoted on the Stock Exchange on the trading day on the Date of Grant of the Options. The exercise price for the Options granted on May 30, 2018 was the average closing price for five consecutive trading days prior to the Date of Grant of the Options. The exercise price for the Options granted on August 21, 2019 was the closing price of the shares quoted on the 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 Grant of the Options (i.e. August 20, 2019 was HK\$6.350).
- (3) Options were exercised during the year ended December 31, 2019.
- (4) Mr. RICHARDSON, Michael Paul retired as an Executive Director with effect from January 1, 2020.
- (5) For the value of Options granted for the year ended December 31, 2019, please refer to note 25 to the Consolidated Financial Statements for details.
- (6) Mr. YANG, Shengqun retired as a non-Executive Director with effect from June 3, 2019.
- (7) Of the 5,959,600 Options to be granted to Mr. ZHAO, Guibin, he has voluntarily given up 4,291,630 Options, resulting in 1,667,970 Options being granted.

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 25 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, 2019, 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. Certain of the Controlling Shareholders have provided an annual confirmation of its compliance with the Non-competition Undertaking. The Independent non-Executive Directors have reviewed and were satisfied that such Controlling Shareholders have complied with the Non-competition Undertaking for the year ended December 31, 2019.

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, 2019 or any time during such year and related to the business of the Group.

Directors' Report

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

As at December 31, 2019, 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 | 8,895,840 (L) | 0.35% |
| RICHARDSON, Michael Paul ⁽³⁾ | Director | Beneficial owner | 6,145,180 (L) | 0.25% |
| FAN, Yi | Director | Beneficial owner | 2,809,230 (L) | 0.11% |
| ZHANG, Jianxun | Director | Beneficial owner | 702,300 (L) | 0.03% |
| WANG, Jian | Director | Beneficial owner | 702,300 (L) | 0.03% |
| LIU, Ping | 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, 2019 of 2,507,544,833.

(3) Mr. RICHARDSON, Michael Paul retired as an Executive Director with effect from January 1, 2020.

Except as disclosed above, as at December 31, 2019, none of our Directors and Chief Executive of the Company have 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, 2019.

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

As at December 31, 2019, 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) | 67.00% |
| Pacific Century Motors, Inc. (PCM China) ⁽²⁾ | Interest of controlled corporation | 1,680,000,000 (L) | 67.00% |
| AVIC Automotive Systems Holding Co., Ltd. (AVIC Auto) ⁽³⁾ | Interest of controlled corporation | 1,680,000,000 (L) | 67.00% |
| Aviation Industry Corporation of China, Ltd. (AVIC) ⁽³⁾ | Interest of controlled corporation | 1,680,000,000 (L) | 67.00% |

Notes:

(L) Denotes a long position in Shares.

(1) The calculation is based on the total number of 2,507,544,833 Shares in issue as at December 31, 2019.

(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.

Directors' Report

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

So far as our Directors are aware, as at December 31, 2019, 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, 2019, our Directors are not aware of any person who, as at December 31, 2019, 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, 2019 set out in note 32(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 and 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, 2019 was US\$60.0 million and the balance was repaid in full during January 2020. 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.

Directors' Report

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

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 Xinxiang Addway Automotive Technology Co., Ltd. (Addway)

References are made to the Prospectus and the announcements of the Company dated December 29, 2015 (as supplemented by the announcement dated January 5, 2016), September 19, 2016, September 23, 2016, and November 28, 2016 (collectively, the **Yubei Announcements**), in relation to the continuing connected transactions between Yubei Steering Systems (Xinxiang) Co., Ltd. (formerly known as Yubei Steering Systems Co., Ltd.) (**Yubei Steering**) and the Group (**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) (the **Renewed Yubei Nomination Letters**). Reference is made to the announcement of the Company on September 10, 2018 (the **Addway Announcement**), in relation to the continuing connected transactions between Addway and the Group (the **Addway Transactions**) under the one nomination letter issued by Nexteer Suzhou and accepted by Addway on September 10, 2018 (the **Original Addway Nomination Letter**). As disclosed in Addway Announcement, the Company was informed that Yubei Steering had transferred the rights to the business dealings with the Group to Yubei Steering's wholly-owned subsidiary, Addway. All future business dealings with Yubei Steering contemplated under the Yubei Transactions will be transacted with Addway. Except for disclosed above, all other terms in the Yubei Transactions had remained the same. Reference is also made to the announcement of the Company on September 19, 2019 (the **Renewed Addway Announcement**), in relation to the renewal of continuing connected transactions between Addway and the Group (the **Renewed Addway Transactions**) under the five nomination letters issued by Nexteer Suzhou and accepted by Addway on September 19, 2019 (the **Renewed Addway Nomination Letters**). The Renewed Yubei Nomination Letters and the Original Addway Nomination Letter had all expired on September 18, 2019.

Pursuant to the Renewed Addway Nomination Letters, Nexteer Suzhou agreed to purchase, and Addway agreed to supply, certain manual and hydraulic rack and pinion gears for a term of three years commencing from September 19, 2019 to September 18, 2022. The indicative unit price for each type of the rack and pinion gears to be provided by Addway is set out in the Renewed Addway Nomination Letters. Such unit price had been determined based on arm's length negotiations between the parties and with reference to the price offered by similar independent suppliers. During the term of the Renewed Addway Nomination Letters, quotations will be obtained from similar independent 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. Separate purchase orders will be issued from time to time to indicate the quantities required by Nexteer Suzhou for the relevant period during the term of the Renewed Addway Nomination Letters. Nexteer Suzhou will fund the purchase of the rack and pinion gears out of its internal funds.

For the year ended December 31, 2019, the Group had complied with the foregoing pricing policies and guidelines.

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

| Period | Annual Caps (RMB) |
|---|-------------------|
| Yubei Transactions and Addway Transactions | |
| For the nine months ended September 30, 2019 | 61,272,000 |
| Renewed Addway Transactions | |
| For the three months ended December 31, 2019 | 1,427,000 |
| For the year ended/ending December 31, | |
| 2020 | 13,444,000 |
| 2021 | 26,907,000 |
| For the nine months ending September 30, | |
| 2022 | 21,464,000 |

Directors' Report

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

- (i) Estimated demand for parts to be purchased by the Group under the Renewed Yubei Nomination Letters for the relevant period, and the expected 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, the Original Addway Nomination Letter and the Renewed Addway Nomination Letters, and the expected demand for the parts to be purchased by Nexteer Suzhou during the term of the Original Addway Nomination Letter;
- (iii) the Group's estimated production capacity and volume in response to the estimated sales demand;
- (iv) the estimated increase in product mix and lifecycle expectations for the relevant vehicles in the PRC; and
- (v) the estimated market demand for relevant vehicles according to an independent third-party industry forecast provider as reference.

Addway is a wholly-owned subsidiary of Yubei Steering and Yubei Steering is indirectly held as to 49.93% by AVIC, a substantial shareholder and Controlling Shareholder of the Company. As each of Addway and Yubei Steering is an associate of AVIC, pursuant to Chapter 14A of the Listing Rules, each of Addway and Yubei Steering is regarded as a connected person of the Company and the Addway Transactions and Yubei Transactions and the Renewed Addway Transactions 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 Annual Caps for (i) the Yubei Transactions and the Addway Transactions (after aggregation) and (ii) the Renewed Addway Transactions, respectively, are more than 0.1% but less than 5%, pursuant to Rule 14A.76 of the Listing Rules, the Annual Caps are subject to the reporting and announcement requirements, but are exempt from the circular and shareholders' approval requirements. The Addway Transactions and Yubei Transactions and the Renewed Addway Transactions are subject to the annual review requirements set out in Rule 14A.55 and Rule 14A.56 of the Listing Rules.

Details of the Addway Transactions and the Yubei Transactions and the Renewed Addway Transactions were fully disclosed in the Addway Announcement and the Yubei Announcements and the Renewed Addway Announcement.

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 Annual Cap for the year ended December 31, 2019.

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, 2019, 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, 2019.

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.

CLOSURE OF REGISTER OF MEMBERS

The Company's AGM will be held on June 30, 2020. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from June 24, 2020 to June 30, 2020, 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 June 23, 2020.

The final dividend is payable on July 20, 2020 and the record date for entitlement to the proposed final dividend is July 9, 2020. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from July 7, 2020 to July 9, 2020, 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 July 6, 2020.

On behalf of the Board

Mr. FAN, Yi

Executive Director and Company Secretary

Hong Kong, March 29, 2020

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, 2019.

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

Chairman and Chief Executive Officer

Under the Code Provision A.2.1 of the Hong Kong CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the period from January 1, 2019 to June 2, 2019, Mr. ZHAO Guibin was the Chairman of the Board and the CEO of the Company. The Board believed that this structure would 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 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 fulfil 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 the Board and senior management levels.

In the context of substantive change to and fierce competition in the global automotive industry, to achieve the Company's vision of "A Leader in Intuitive Motion Control", the Company's CEO, Mr. ZHAO Guibin, needed to focus on the Company's strategy and its execution and ceased to serve as the Chairman of the Board with effect from June 3, 2019 and was appointed as its Vice Chairman. The Board had approved the appointment of Mr. WANG Jian, a non-Executive Director of the Company, as the Chairman of the Board in place of Mr. ZHAO Guibin with effect from June 3, 2019. Upon such appointment, the Company has complied with the Code Provision A.2.1 of the Hong Kong CG Code.

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, 2019.

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.

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**), Company Secretary 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

As at December 31, 2019, the Board consists of nine Directors, including three Executive Directors, namely ZHAO, Guibin (Vice Chairman), FAN, Yi and RICHARDSON, Michael Paul (retired with effect from January 1, 2020), three non-Executive Directors namely WANG, Jian (appointed as our non-Executive Director and Chairman with effect from June 3, 2019), ZHANG, Jianxun and LIU, Ping (appointed as our non-Executive Director with effect from June 3, 2019) and three Independent non-Executive Directors, namely LIU, Jianjun, WEI, Kevin Cheng and YICK, Wing Fat Simon. The biographical details of each current 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 the Board and committee meetings, and the annual general meeting held for the year ended December 31, 2019:

| Name of Director | Attendance/number of Meetings in 2019 | | | |
|---|---------------------------------------|---------------------------------------|--------------------------------|------------------------|
| | 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 ⁽¹⁾ | 4/4 | N/A | N/A | 1/1 |
| FAN, Yi (樊毅) | 4/4 | N/A | N/A | 1/1 |
| WANG, Jian (王堅) ⁽²⁾ | 3/3 | N/A | N/A | N/A |
| ZHANG, Jianxun (張建勛) | 4/4 | 3/3 | N/A | 1/1 |
| LIU, Ping (劉平) ⁽³⁾ | 3/3 | N/A | 2/2 | N/A |
| YANG, Shengqun (楊勝群) ⁽⁴⁾ | 1/1 | N/A | 1/1 | 1/1 |
| 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) | 4/4 | 3/3 | 3/3 | 1/1 |

Notes:

- (1) Mr. RICHARDSON, Michael Paul retired as our Executive Director with effect from January 1, 2020.
- (2) Mr. WANG, Jian was appointed as our non-Executive Director and Chairman with effect from June 3, 2019.
- (3) Mr. LIU, Ping was appointed as our non-Executive Director with effect from June 3, 2019.
- (4) Mr. YANG, Shengqun retired as our non-Executive Director with effect from June 3, 2019.

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 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, 2019, 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.

Corporate Governance Report

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.

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, 2019, 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 Company Secretary, has undertaken not less than 15 hours of relevant professional training during the year ended December 31, 2019.

During the year ended December 31, 2019, the Directors participated in the following training:

| Directors | Types of training |
|--|-------------------|
| Executive Directors | |
| ZHAO, Guibin (<i>Vice Chairman</i>) | A, B, C, D |
| RICHARDSON, Michael Paul (retired with effect from January 1, 2020) | A, B, C, D |
| FAN, Yi | A, C, D |
| Non-Executive Directors | |
| WANG, Jian (<i>Chairman</i>) (appointed with effect from June 3, 2019) | A, B, C, D |
| ZHANG, Jianxun | A, C, D |
| LIU, Ping (appointed with effect from June 3, 2019) | A, C, D |
| YANG, Shengqun (retired with effect from June 3, 2019) | A, C, D |
| Independent Non-Executive Directors | |
| LIU, Jianjun | A, C, D |
| WEI, Kevin Cheng | A, C, D |
| YICK, Wing Fat Simon | 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.

Corporate Governance Report

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.

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 section D.2 of the Hong Kong CG Code. The terms of reference (as revised on March 12, 2019) 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. YANG, Shengqun (retired with effect from June 3, 2019), Mr. LIU, Ping (appointed with effect from June 3, 2019) and Mr. YICK, Wing Fat Simon. 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, 2019, 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 2019:

- 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 Internal Audit plan;
- confirmed the independence and objectivity of the Company's external auditor, PricewaterhouseCoopers;
- met with the external auditor and reviewed their 2019 audit plan;

Corporate Governance Report

- reviewed the annual results and the adequacy of the risk management and internal control system for the year ended December 31, 2019; and
- reviewed the interim results for the six months ended June 30, 2019.

Subsequent to December 31, 2019 and up to the date of this annual report, a meeting of the Audit and Compliance Committee was held on March 10, 2020 to review the annual results and the adequacy of the risk management and internal control system for the year ended December 31, 2019.

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 section D.2 of the Hong Kong CG Code. 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. LIU, Jianjun, Mr. YICK, Wing Fat Simon and Mr. ZHANG, Jianxun. All members of the Remuneration and Nomination Committee are non-Executive Directors, among whom 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 with 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, 2019, 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 2019:

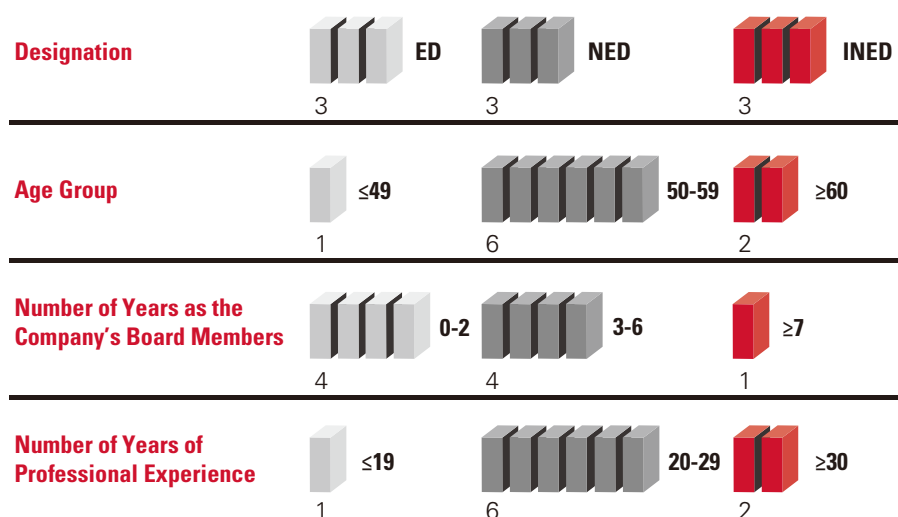
- reviewed and made a recommendation to the Board regarding the fees of the non-Executive Directors;
- reviewed and made a recommendation to the Board regarding the fees of the Independent non-Executive Directors;
- reviewed the Board structure, size, composition and board diversity (including ability, knowledge and experience etc.);
- confirmed the independence of the 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 recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. To that end, the Company has adopted a Board diversity policy to set out the approach to achieve diversity on the Board. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, ethnicity, years of work experience, and professional experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Company continues to pursue board diversity in multiple aspects. A visual snapshot of the Board's diversity and certain measurable objectives as at December 31, 2019 is shown on this page.

DIVERSITY SNAPSHOTS



| Directors | Professional experiences include |
|--------------------------|---|
| ZHAO, Guibin | automotive, aviation technology, strategy, corporate governance, operation management, economics, business administration |
| RICHARDSON, Michael Paul | automotive, engineering strategy, operations, business administration |
| FAN, Yi | automotive, company secretary, aviation technology, engineering, economics, management |
| WANG, Jian | automotive, aviation technology, strategy, corporate governance, operation management, finance, economics |
| ZHANG, Jianxun | investment, strategy, sports, international marketing management, communication and information system, engineering |
| LIU, Ping | finance, accounting, legal, operation management |
| LIU, Jianjun | legal, transportation |
| WEI, Kevin Cheng | accounting, auditing, finance, investment banking, corporate finance advisory, real estate, energy, sports, business administration |
| YICK, Wing Fat Simon | accounting, auditing, remuneration, investment banking, corporate advisory services, environment, bio-tech, business administration |

Corporate Governance Report

NOMINATION POLICY

The Remuneration and Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as directors of the Company at general meetings or to appoint as directors to fill casual vacancies. The Remuneration and Nomination Committee may, as it considers appropriate, nominate a number of candidates more than the number of directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled.

The factors listed below would be used as reference by the Remuneration and Nomination Committee in assessing the suitability of a proposed candidate: reputation for integrity and good character; judgment and diversity of experience in all its aspects, including but not limited to gender, age, ethnicity, years of work experience, and professional experience – including educational background, skills and knowledge; commitment to the Company in respect of available time and relevant interest; ability to provide insight in relation to the Company's line of business; requirement for the Board to have independent non-executive directors in accordance with the Listing Rules; whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules, taking into account factors like the candidate's relationship with the existing directors and any substantial interest in the Company; understanding of the fiduciary duties required; and compliance with the Board Diversity Policy and any measurable objectives adopted by the Remuneration and Nomination Committee for achieving diversity on the Board. These factors are for reference only, and not meant to be exhaustive and decisive. The Remuneration and Nomination Committee has the discretion to nominate any person, as it considers appropriate. Proposed candidates will be asked to submit the necessary personal information in a prescribed form, together with their written consent to be appointed as a director and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a director. The Remuneration and Nomination Committee may request candidates to provide additional information and documents, if considered necessary.

The secretary of the Remuneration and Nomination Committee shall call a meeting of the Remuneration and Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Remuneration and Nomination Committee prior to its meeting. For filling a casual vacancy, the Remuneration and Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Remuneration and Nomination Committee shall make nominations to the Board for its consideration and recommendation. Until the issue of the shareholder circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting. Nomination procedures to be followed by the shareholders shall be in accordance with the Articles of Association (as amended and/or from time to time). A candidate is allowed to withdraw his candidature at any time before the general meeting by serving a notice in writing to the Company Secretary. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

DIVIDEND POLICY

The declaration of dividends is subject to the discretion of the Board and the approval of the Company's shareholders. Subject to applicable laws and regulations, the Company currently intends to pay dividends of not less than 20% of its net profits available for distribution. The Board may recommend a payment of dividends in the future after taking into account the Company's operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditures and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to the Company's constitutional documents and the Companies Law (as amended) of the Cayman Islands including the approval of the Company's shareholders. Any future declarations of dividends may or may not reflect the Company's historical declarations of dividends and will be at the absolute discretion of the Board.

Corporate Governance Report

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, 2019 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 | 2,477 |
| Non-audit Services | 2,325 |
| Total | 4,802 |

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

COMPANY SECRETARY

Mr. FAN, Yi had served as the Joint Company Secretary since January 28, 2013 until he became the sole Company Secretary with effect from October 19, 2018. The biographical details of Mr. FAN, Yi are set out under the section headed 'Directors and Senior Management'.

During 2019, in accordance with Rule 3.29 of the Listing Rules, Mr. FAN, Yi undertook no less than 15 hours of professional training to update his 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 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.

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.

Corporate Governance Report

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 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

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, 2019 are set out in note 25 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, 2019 is within the following bands:

| Band of remuneration in US\$ | No. of person |
|-------------------------------|---------------|
| US\$500,001 – US\$750,000 | 6 |
| US\$750,001 – US\$1,000,000 | 5 |
| US\$1,250,001 – US\$1,500,000 | 1 |
| US\$1,750,001 – US\$2,000,000 | 2 |
| US\$2,500,001 – US\$2,750,000 | 1 |

Corporate Governance Report

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, 2019, 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.

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.

Corporate Governance Report

The Internal Audit department has completed a risk assessment process and developed an Internal Audit plan that focuses on the key risks to the Company. The Company reviewed the risk assessment and Internal Audit plans with the Audit and Compliance Committee in 2019. The Internal Audit department executed the Internal Audit plan and conducted a review of the effectiveness of the system of risk management and internal control for key high risk frameworks. 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, 2019 and consider them effective and adequate.

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 and continues to operate under its Business System meeting IATF and customer requirements, as well as promoting and focusing on continual improvements to its business processes and 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, 2019.

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 92 to 167, which comprise:

- the consolidated balance sheet as at December 31, 2019;
- 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, 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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

Key Audit Matters**How our audit addressed the Key Audit Matters****Capitalised product development costs**

Refer to notes 2.9 and 9 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 9 of the consolidated financial statements, US\$622.0 million of development costs have been capitalised within intangible assets as at December 31, 2019.

Our audit was focused on this area given the significance of the development costs capitalised as at December 31, 2019, 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 2.9 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 2.9 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 2.9 to the consolidated financial statements.

Independent Auditor's Report

Key Audit Matters**How our audit addressed the Key Audit Matters**

- 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 19 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 19 to the consolidated financial statements, the ending warranties provision balance is US\$62.3 million as at December 31, 2019. 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

Key Audit Matters

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.

How our audit addressed the Key Audit Matters

- 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.

Independent Auditor's Report

- 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.

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 Tsun Ng.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, March 29, 2020

Consolidated Balance Sheet

As at December 31, 2019

| | | As at December 31, | |
|-----------------------------------|-------|--------------------|------------------|
| | Notes | 2019 US\$'000 | 2018 US\$'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 989,754 | 933,244 |
| Right-of-use assets | 7 | 58,174 | — |
| Land use rights | 8 | 2,985 | 3,520 |
| Intangible assets | 9 | 627,147 | 561,933 |
| Deferred income tax assets | 10 | 11,829 | 8,621 |
| Investments in joint ventures | 32b | 19,507 | 16,944 |
| Other receivables and prepayments | 13 | 29,949 | 25,034 |
| | | 1,739,345 | 1,549,296 |
| Current assets | | | |
| Inventories | 11 | 266,046 | 234,303 |
| Trade receivables | 12 | 544,675 | 528,859 |
| Other receivables and prepayments | 13 | 107,068 | 124,524 |
| Restricted bank deposits | 14 | 11 | 3 |
| Cash and cash equivalents | 15 | 601,827 | 674,526 |
| | | 1,519,627 | 1,562,215 |
| Total assets | | 3,258,972 | 3,111,511 |

The notes on pages 98 to 167 are an integral part of these Consolidated Financial Statements.

Consolidated Balance Sheet (Continued)

| | Notes | As at December 31, 2019 US\$'000 | 2018 US\$'000 |
|---|-------|--|------------------|
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 34 | 32,347 | 32,324 |
| Other reserves | 16 | 22,184 | 73,593 |
| Retained earnings | | 1,757,450 | 1,565,893 |
| | | 1,811,981 | 1,671,810 |
| Non-controlling interests | | 39,675 | 38,034 |
| Total equity | | 1,851,656 | 1,709,844 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | 17 | 298,210 | 315,526 |
| Retirement benefits and compensations | 18 | 22,856 | 19,058 |
| Deferred income tax liabilities | 10 | 73,786 | 88,410 |
| Provisions | 19 | 61,804 | 77,730 |
| Deferred revenue | 20 | 76,474 | 75,824 |
| Other payables and accruals | 22 | 9,621 | 4,277 |
| | | 542,751 | 580,825 |
| Current liabilities | | | |
| Trade payables | 21 | 592,020 | 553,191 |
| Other payables and accruals | 22 | 128,630 | 140,210 |
| Current income tax liabilities | | 19,302 | 16,192 |
| Retirement benefits and compensations | 18 | 3,385 | 3,747 |
| Provisions | 19 | 22,269 | 11,380 |
| Deferred revenue | 20 | 27,843 | 29,894 |
| Borrowings | 17 | 71,116 | 66,228 |
| | | 864,565 | 820,842 |
| Total liabilities | | 1,407,316 | 1,401,667 |
| Total equity and liabilities | | 3,258,972 | 3,111,511 |

The notes on pages 98 to 167 are an integral part of these Consolidated Financial Statements.

The Consolidated Financial Statements on pages 92 to 167 were approved by the Board of Directors on March 29, 2020 and were signed on its behalf.

Zhao, Guibin

Director

Fan, Yi

Director

Consolidated Income Statement

For the year ended December 31, 2019

| | Notes | For the year ended December 31, | |
|---|-------|------------------------------------|------------------|
| | | 2019 US\$'000 | 2018 US\$'000 |
| Revenue | 5 | 3,575,657 | 3,912,170 |
| Cost of sales | 24 | (3,036,955) | (3,243,323) |
| Gross profit | | 538,702 | 668,847 |
| Engineering and product development costs | 24 | (129,074) | (116,438) |
| Selling and distribution expenses | 24 | (18,385) | (19,445) |
| Administrative expenses | 24 | (120,101) | (123,747) |
| Other gains, net | 23 | 1,520 | 14,838 |
| Operating profit | | 272,662 | 424,055 |
| Finance income | 26 | 9,297 | 8,144 |
| Finance costs | 26 | (14,241) | (17,427) |
| Finance costs, net | 26 | (4,944) | (9,283) |
| Share of loss of joint ventures, net | 32b | (3,785) | (4,381) |
| Profit before income tax | | 263,933 | 410,391 |
| Income tax expense | 27 | (29,275) | (26,045) |
| Profit for the year | | 234,658 | 384,346 |
| Profit attributable to: | | | |
| Equity holders of the Company | | 232,445 | 379,657 |
| Non-controlling interests | | 2,213 | 4,689 |
| | | 234,658 | 384,346 |
| Earnings per share for profit attributable to equity holders of the Company for the year (expressed in US\$ per share) | | | |
| – Basic and diluted | 28 | US\$0.09 | US\$0.15 |

The notes on pages 98 to 167 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2019

| | For the year ended December 31, | |
|--|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Profit for the year | 234,658 | 384,346 |
| Other comprehensive loss | | |
| <i>Items that will not be reclassified to profit or loss</i> | | |
| Actuarial losses on defined benefit plans, net of tax | (2,628) | (247) |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | |
| Exchange differences, net of tax | (13,668) | (43,227) |
| | (16,296) | (43,474) |
| Total comprehensive income for the year | 218,362 | 340,872 |
| Total comprehensive income for the year attributable to: | | |
| Equity holders of the Company | 216,721 | 338,045 |
| Non-controlling interests | 1,641 | 2,827 |
| | 218,362 | 340,872 |

The notes on pages 98 to 167 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

| | Attributable to equity holders of the Company | | | | | | | Non-controlling interests US\$'000 | Total US\$'000 |
|--|---|--|---|---|---|-------------------------------|-----------------------|---------------------------------------|-------------------|
| | Share capital US\$'000 | Share premium US\$'000 (note 16) | Merger reserve US\$'000 (note 16) | Share-based compensation reserve US\$'000 (note 16) | Exchange reserve US\$'000 (note 16) | Retained earnings US\$'000 | Sub-total US\$'000 | | |
| As at January 1, 2018 | 32,310 | 106,747 | 113,000 | 7,548 | (43,271) | 1,186,077 | 1,402,411 | 38,304 | 1,440,715 |
| Adoption of IFRS 15 | - | - | - | - | - | 406 | 406 | - | 406 |
| Comprehensive income | | | | | | | | | |
| Profit for the year | - | - | - | - | - | 379,657 | 379,657 | 4,689 | 384,346 |
| Other comprehensive loss | | | | | | | | | |
| Exchange differences, net of tax | - | - | - | - | (41,365) | - | (41,365) | (1,862) | (43,227) |
| Actuarial losses on defined benefit plans, net of tax | - | - | - | - | - | (247) | (247) | - | (247) |
| Total other comprehensive loss | - | - | - | - | (41,365) | (247) | (41,612) | (1,862) | (43,474) |
| Total comprehensive (loss) income | - | - | - | - | (41,365) | 379,410 | 338,045 | 2,827 | 340,872 |
| Transactions with owners | | | | | | | | | |
| Value of employee services provided under share option scheme (note 25(a)) | - | - | - | (138) | - | - | (138) | - | (138) |
| Transfer to share premium under exercise of share options | - | 470 | - | (470) | - | - | - | - | - |
| Proceeds from exercise of share options | 14 | 1,026 | - | - | - | - | 1,040 | - | 1,040 |
| Dividends paid to shareholders | - | (69,954) | - | - | - | - | (69,954) | - | (69,954) |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | (3,097) | (3,097) |
| Total transactions with owners | 14 | (68,458) | - | (608) | - | - | (69,052) | (3,097) | (72,149) |
| As at December 31, 2018 | 32,324 | 38,289 | 113,000 | 6,940 | (84,636) | 1,565,893 | 1,671,810 | 38,034 | 1,709,844 |
| Adoption of IFRS 16 (note 2.27) | - | - | - | - | - | (2,227) | (2,227) | - | (2,227) |
| Comprehensive income | | | | | | | | | |
| Profit for the year | - | - | - | - | - | 232,445 | 232,445 | 2,213 | 234,658 |
| Other comprehensive loss | | | | | | | | | |
| Exchange differences, net of tax | - | - | - | - | (13,096) | - | (13,096) | (572) | (13,668) |
| Actuarial losses on defined benefit plans, net of tax | - | - | - | - | - | (2,628) | (2,628) | - | (2,628) |
| Total other comprehensive loss | - | - | - | - | (13,096) | (2,628) | (15,724) | (572) | (16,296) |
| Total comprehensive (loss) income | - | - | - | - | (13,096) | 229,817 | 216,721 | 1,641 | 218,362 |
| Transactions with owners | | | | | | | | | |
| Value of employee services provided under share option scheme (note 25(a)) | - | - | - | 946 | - | - | 946 | - | 946 |
| Transfer to share premium under exercise of share options | - | 970 | - | (970) | - | - | - | - | - |
| Proceeds from exercise of share options | 23 | 2,442 | - | - | - | - | 2,465 | - | 2,465 |
| Dividend paid to shareholders (note 29) | - | (41,701) | - | - | - | (36,033) | (77,734) | - | (77,734) |
| Total transactions with owners | 23 | (38,289) | - | (24) | - | (36,033) | (74,323) | - | (74,323) |
| As at December 31, 2019 | 32,347 | - | 113,000 | 6,916 | (97,732) | 1,757,450 | 1,811,981 | 39,675 | 1,851,656 |

The notes on pages 98 to 167 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

| | | For the year ended December 31, | |
|--|-------|------------------------------------|------------------|
| | Note | 2019 US\$'000 | 2018 US\$'000 |
| Operating activities | | | |
| Cash generated from operations | 30(a) | 509,016 | 657,018 |
| Income tax paid, net | | (17,775) | (43,816) |
| Net cash generated from operating activities | | 491,241 | 613,202 |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (200,607) | (158,306) |
| Addition of intangible assets and land use rights | | (167,720) | (144,744) |
| Proceeds from sale of property, plant and equipment | | 1,328 | 2,744 |
| Changes in restricted bank deposits | | (8) | 6,905 |
| Investments in joint ventures | | (6,349) | (10,304) |
| Net cash used in investing activities | | (373,356) | (303,705) |
| Financing activities | | | |
| Proceeds from borrowings | 30(b) | 6,304 | 1,745 |
| Repayments of borrowings | 30(b) | (76,009) | (112,230) |
| Repayments of lease liabilities | 7 | (12,619) | (1,498) |
| Finance costs paid | | (26,567) | (28,283) |
| Dividends paid to non-controlling interests | | — | (3,097) |
| Dividends paid to equity holders of the Company | | (77,734) | (69,954) |
| Proceeds from exercise of share options | | 2,465 | 1,040 |
| Net cash used in financing activities | | (184,160) | (212,277) |
| Net (decrease) increase in cash and cash equivalents | | (66,275) | 97,220 |
| Cash and cash equivalents at beginning of year | | 674,526 | 600,788 |
| Effect of exchange rate changes on cash and cash equivalents | | (6,424) | (23,482) |
| Cash and cash equivalents at end of period | | 601,827 | 674,526 |

The notes on pages 98 to 167 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

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 (as amended), 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**), are 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. (**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 29, 2020.

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 and requirements of the Hong Kong Companies Ordinance Cap. 622. 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.

Prior year balances have been reclassified to conform with current year presentation. Employee benefit costs in the amount of US\$6,517,000 have been reclassified from engineering and product development costs to cost of sales in the 2018 Consolidated Income Statement to conform to the 2019 presentation.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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 value 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 accounts for these as joint ventures 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. 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 and loss.

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 basis 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 2.10).

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 Right-of-use (ROU) asset**

See note 2.23 for details on measurement of ROU.

2.8 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.

2.9 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)**2.9 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.

2.10 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)**2.11 Financial assets***(a) Classification*

From January 1, 2018, the Group classified its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

As at December 31, 2019, the Group's financial assets primarily comprise loans and receivables and all are measured at amortised cost.

Loans, contract assets 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, contract assets and receivables comprise trade receivables (note 2.13) and other receivables and prepayments (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. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains (losses) together with foreign exchange gains and losses. As at December 31, 2019, all of the Group's debt instruments are measured at amortised cost.

(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)**2.11 Financial assets (Continued)****(d) Impairment of financial assets**

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and at fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, *Financial Instruments (IFRS 9)*, which requires expected lifetime losses to be recognised from initial recognition of the receivables. For other receivables at amortised cost, the Group recognises a loss allowance equal to 12-month expected credit losses unless there has been a significant increase in credit risk of the financial assets since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime expected credit losses.

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.

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2.17 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.18 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.

(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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.19 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.

(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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.20 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.

2.21 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.

2.22 Revenue recognition

See note 5 for details on the Group's revenue recognition policy.

2.23 Leases

As stated in note 2.27, effective January 1, 2019, the Group adopted IFRS 16, *Leases* (**IFRS 16**). Accordingly, the Group applies the right-of-use (**ROU**) model to recognise a ROU asset and lease liability (included in borrowings) on the balance sheet for all leases with a term longer than 12 months. See note 2.27 related to adoption of IFRS 16.

For lease contracts entered into subsequent to the adoption of IFRS 16, lease liabilities are measured at the present value of the remaining lease payments, discounted using the applicable incremental borrowing rate at the beginning of the lease. IFRS 16 requires that the rate implicit in the lease be used if readily determinable. Generally, implicit rates are not readily determinable in our contracts and the incremental borrowing rate is used for each lease arrangement. The incremental borrowing rates are determined using rates specific to the term of the lease, economic environments where lease activity is concentrated, value of lease portfolio, and assuming full collateralisation of the loans.

ROU assets are measured at cost, less accumulated depreciation and any accumulated impairment losses. Any remeasurement of a specific lease liability results in a corresponding adjustment to the ROU asset. The adjustment can be positive or negative. Depreciation of the ROU asset is calculated in accordance with IAS 16, *Property, Plant and Equipment*, and is recorded straight-line over the shorter of the lease term and the useful life of the ROU asset.

For all asset classes, the Group accounts for each lease component of a contract and its associated non-lease components as a single lease component, rather than allocate a standalone value to each component of the lease. The Group does not apply the use of hindsight when determining the lease term and assessing ROU assets for impairment. The Group does not recognise ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.23 Leases (Continued)**

For the purpose of calculating lease obligations, the Group's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise such option. The Group's leases do not contain material residual value guarantees or material restrictive covenants.

The majority of the Group's global lease portfolio represents leases of real estate, such as manufacturing facilities and office buildings, while the remainder represents leases of personal property, such as machinery and equipment and furniture and office equipment. The Group determines if an arrangement contains a lease at inception. The majority of the Group's lease arrangements are comprised of fixed payments and a limited number of these arrangements include a variable payment component based on certain index fluctuations.

2.24 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.

2.25 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 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.

2.26 Dividend distribution

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.27 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, 2019:

| | |
|-------------------------|--|
| IFRS 16 | Leases |
| IFRIC Interpretation 23 | Uncertainty over income tax treatments |
| Amendment to IAS 12 | Income taxes |
| Amendment to IAS 23 | Borrowing costs |

In January 2016, the IASB issued IFRS 16, which introduces a lessee model that brings most leases on the balance sheet. The new standard establishes a ROU model that requires a lessee to recognise a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months.

The Group has adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach to prepare the Consolidated Financial Statements. The cumulative effect of initially applying the new leasing standard was recognised as an adjustment of US\$2,227,000 to the opening balance of retained earnings as at January 1, 2019. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the prior year.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17, *Leases*. Those liabilities were measured at the present value of the remaining lease payments, discounted using the applicable incremental borrowing rate as of January 1, 2019. IFRS 16 requires that the rate implicit in the lease be used if readily determinable. Generally, implicit rates are not readily determinable in our contracts and the incremental borrowing rate is used for each lease arrangement. The incremental borrowing rates are determined using rates specific to the term of the lease, economic environments where lease activity is concentrated, value of lease portfolio, and assuming full collateralisation of the loans. The weighted average lessee's incremental borrowing rate applied to lease liabilities on January 1, 2019 was 5.9%.

The Group has elected the option, on a lease by lease basis, to value the associated ROU assets on a retrospective basis as if the new rules had always been applied. Other ROU assets, for leases where this election was not made, were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the ROU assets at the date of initial application. The Group has elected the package of practical expedients, which permits a lessee to not reassess under the new standard its prior conclusions regarding lease identification, lease classification and initial direct costs.

For the purposes of calculating lease obligations under the standard, the Group's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise such option.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.27 New/revised standards, amendments to standards and interpretations** (Continued)*(a) New and amended standards adopted by the Group* (Continued)

Adoption of IFRS 16 resulted in the recording ROU assets of US\$61,054,000 and incremental lease liabilities of US\$58,619,000 recorded as borrowings within the consolidated balance sheet as at January 1, 2019.

A reconciliation of operating lease commitments disclosed as at December 31, 2018 to lease liabilities recognised as at January 1, 2019 is as follows:

| | US\$'000 |
|---|----------|
| Operating lease commitments disclosed as at December 31, 2018 | 71,505 |
| Discounted using the incremental borrowing rate as at January 1, 2019 | 60,590 |
| Add: finance lease liabilities recognised as at December 31, 2018 | 5,113 |
| Less: short-term and low-value leases not recognised as a liability | (1,971) |
| Lease liability recognised as at January 1, 2019 | 63,732 |

The changes made to our consolidated balance sheet as at January 1, 2019 for the adoption of IFRS 16 were as follows:

| | Balances as at December 31, 2018 US\$'000 | Adjustments due to IFRS 16 US\$'000 | Balances as at January 1, 2019 US\$'000 |
|-------------------------------|--|--|--|
| Balance Sheet | | | |
| Assets | | | |
| Property, plant and equipment | 933,244 | (6,241) | 927,003 |
| Right-of-use assets | – | 61,054 | 61,054 |
| Liabilities | | | |
| Borrowings | 381,754 | 58,619 | 440,373 |
| Other payables and accruals | 144,487 | (1,579) | 142,908 |
| Equity | | | |
| Retained earnings | 1,565,893 | (2,227) | 1,563,666 |

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.27 New/revised standards, amendments to standards and interpretations (Continued)***(a) New and amended standards and interpretations adopted by the Group (Continued)*

IFRIC Interpretation 23, *Uncertainty Over Income Tax Treatments (IFRIC 23)* clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes (IAS 12)* when there is uncertainty over income tax treatment. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (loss), tax bases, unused tax losses, unused tax credits and applicable tax rates. The adoption of IFRIC Interpretation 23 did not have a significant effect on the Consolidated Financial Statements.

Amendment to IAS 12 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 adoption of Amendment to IAS 12 did not have significant effect on the Consolidated Financial Statements.

Amendment to IAS 23, *Borrowing costs*, 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 borrowing. The adoption of Amendment to IAS 23 did not have a significant effect on the Consolidated Financial Statements.

In addition to the above mentioned standards and interpretations adopted by the Group for the year ended December 31, 2019, all other new standards and interpretations have been evaluated and deemed to be either not applicable or immaterial to the Group's financial statements.

(b) New and amended standards and interpretations not yet adopted by the Group

The following new amendment to standards relevant to the Group has been issued but are not yet effective for the financial year beginning January 1, 2019 and has not been early adopted:

| | |
|------------------------------|---|
| Amendment to IAS 1 and IAS 8 | Presentation of financial statements and accounting policies, changes in accounting estimates and errors. |
|------------------------------|---|

Management is in the process of assessing their related impacts to the Group.

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, 2019 | | |
| Euro | 46,468 | 3,009 |
| RMB | 51,868 | 6,847 |
| As at and for the year ended December 31, 2018 | | |
| Euro | 42,557 | 3,808 |
| RMB | 47,811 | 10,837 |

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.

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. As at December 31, 2019, 19% (December 31, 2018: 34%) of the Group's borrowings were in floating rate instruments. In the event there is a change in market conditions the Group will assess the costs and benefits of both variable and fixed rate borrowings and entering into interest rate swaps. The Group does not currently hold any interest rate swaps.

As at December 31, 2019, 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, 2019 would have been US\$1,022,000 (2018: US\$1,799,000) lower (higher).

(iii) Price risk

Price risk relates to changes in the price of raw materials (including related transactional currency changes) purchased for production from the time of price quotation to customers through the 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 based on a number of variables.

The Company considers the probability of default upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. Financial assets are written off when there is no reasonable expectation of recovery, such as the debtor failing to engage in a repayment plan with the Company. Where loans or receivables have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Group's largest customer is General Motors Company and Subsidiaries (**GM**) and its affiliates, which comprised 39% of revenues during the year ended December 31, 2019 (2018: 42%). Trade receivables from GM and its affiliates was 41% of total trade receivables as at December 31, 2019 (December 31, 2018: 36%).

The Group monitors the credit ratings of its banks and financial institutions. As at December 31, 2019, the Group holds approximately 84% (December 31, 2018: 89%) 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 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, 2019 | | | | |
| Short-term borrowings | 164 | – | – | – |
| Long-term borrowings | 77,079 | 264,688 | – | – |
| Lease liabilities | 15,612 | 13,392 | 29,691 | 15,454 |
| | 92,855 | 278,080 | 29,691 | 15,454 |
| Trade payables | 592,020 | – | – | – |
| Accrued expenses and other | 64,968 | 4,607 | – | – |
| | | | | |
| | Within 1 year US\$'000 | 1–2 years US\$'000 | 2–5 years US\$'000 | Over 5 years US\$'000 |
| As at December 31, 2018 | | | | |
| Short-term borrowings | 545 | – | – | – |
| Long-term borrowings | 86,711 | 82,161 | 264,688 | – |
| Finance lease obligations | 2,192 | 1,781 | 1,730 | – |
| | 89,448 | 83,942 | 266,418 | – |
| Trade payables | 553,191 | – | – | – |
| Accrued expenses and other | 75,428 | 2,999 | – | – |

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, | |
|----------------------------|--------------------|-----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Total borrowings (note 17) | 369,326 | 381,754 |
| Total equity | 1,851,656 | 1,709,844 |
| Gearing ratio | 19.9% | 22.3% |

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, 2019 and December 31, 2018. 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 or financial liabilities 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 2.9. 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 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 18. 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, which 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) 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.

(e) 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.

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION**5.1 Revenue from contracts with customers**

The Group contracts with customers, which are generally automotive manufacturers and automotive original equipment manufacturers, to sell steering and driveline systems and components. In connection with these contracts the Group provides tooling and prototype parts. The Group does not have material significant payment terms as payment is received shortly after the point of sale.

Performance Obligations

The following summarises types of performance obligations identified in a contract with a customer.

| Products | Nature, timing of satisfaction of performance obligations, and payment terms. |
|---|---|
| Production Parts | <p>The Group recognises the majority of revenue for production parts at a point in time upon shipment to the customer and transfer of the title and risk of loss under standard commercial terms.</p> <p>A limited number of the Group's customer arrangements for customised products with no alternative use provide the Company with the right to payment during the production process. These revenues are recognised over time as performance obligations under the terms of a contract are satisfied</p> <p>The amount of revenue recognised is based on the purchase order price. Customers typically pay for the product/prototype based on customary business practices with payment terms averaging 47-60 days.</p> |
| Tooling | <p>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. Customers typically pay for the tooling in a lump sum upon acceptance.</p> <p>The Group recognises revenue for tooling over time as it satisfies its performance obligation. Revenue is recognised to the extent of costs incurred to date for reimbursable tooling from customers.</p> |
| Engineering Design and Development/Prototypes | <p>The Group recognises non-production related engineering design and development revenue, which is normally related to ADAS, performance improvement and business pursuit.</p> <p>The Group recognises revenue for non-production engineering design and development/prototypes revenue over time as it satisfies its performance obligations.</p> |

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (Continued)**5.1 Revenue from contracts with customers (Continued)***Contract balances*

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on production parts, tooling and engineering design and development/prototype. The contract assets are reclassified into the receivables balance when the rights to receive payment become unconditional. There have been no impairment losses recognised related to contract assets arising from the Group's contracts with customers. Contract liabilities are associated with consideration received from customers in advance of transferring goods promised in a contract. Recognition of revenue is deferred until the related performance obligations are satisfied in the future. The following table provides information about contract assets and contract liabilities from contracts with customers.

| | Contract assets (i) US\$'000 | Contract liabilities, Current (ii) US\$'000 | Contract liabilities, Non-Current (ii) US\$'000 |
|---|--|---|---|
| Balances as at December 31, 2019 | 33,572 | (27,843) | (76,474) |
| Balances as at December 31, 2018 | 28,248 | (29,894) | (75,824) |
| Change in account balance | 5,324 | 2,051 | (650) |

(i) Contract assets are recorded within other current receivables and prepayments.

(ii) Contract liabilities are recorded within deferred revenue.

5.2 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, Middle East, Africa and South America (**EMEASA**). 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 REVENUE AND SEGMENT INFORMATION (Continued)**5.2 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 intangible assets) 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 | EMEASA US\$'000 | Others US\$'000 | Total US\$'000 |
|---|------------------------------|-----------------------------|--------------------|--------------------|-------------------|
| For the year ended December 31, 2019 | | | | | |
| Total revenue | 2,472,145 | 662,274 | 495,957 | – | 3,630,376 |
| Inter-segment revenue | (23,353) | (19,695) | (11,671) | – | (54,719) |
| Revenue from external customers | 2,448,792 | 642,579 | 484,286 | – | 3,575,657 |
| Adjusted EBITDA | 340,056 | 136,889 | 55,832 | (7,681) | 525,096 |
| For the year ended December 31, 2018 | | | | | |
| Total revenue | 2,656,347 | 805,758 | 520,467 | – | 3,982,572 |
| Inter-segment revenue | (31,038) | (24,246) | (15,118) | – | (70,402) |
| Revenue from external customers | 2,625,309 | 781,512 | 505,349 | – | 3,912,170 |
| Adjusted EBITDA | 402,904 | 167,498 | 57,594 | (8,432) | 619,564 |

The revenue from external parties reported to the Group's CEO is measured in a manner consistent with that in the consolidated income statement.

Reconciliations of reportable segment total assets and liabilities are as follows:

| | North America US\$'000 | Asia Pacific US\$'000 | EMEASA US\$'000 | Others US\$'000 | Total US\$'000 |
|--------------------------------|------------------------------|-----------------------------|--------------------|--------------------|-------------------|
| As at December 31, 2019 | | | | | |
| Total assets | 2,001,209 | 973,646 | 410,491 | (126,374) | 3,258,972 |
| Total liabilities | (740,049) | (321,439) | (165,248) | (180,580) | (1,407,316) |
| As at December 31, 2018 | | | | | |
| Total assets | 1,908,820 | 773,213 | 377,087 | 52,391 | 3,111,511 |
| Total liabilities | (770,975) | (263,319) | (145,659) | (221,714) | (1,401,667) |

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (Continued)**5.2 Segment information** (Continued)

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

| | For the year ended December 31, | |
|---|--|-----------------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Adjusted EBITDA from reportable segments | 525,096 | 619,564 |
| Depreciation and amortisation expenses | (226,322) | (195,509) |
| Impairment on intangible assets and property, plant and equipment(i) | (26,112) | – |
| Finance costs, net | (4,944) | (9,283) |
| Share of loss of joint ventures, net | (3,785) | (4,381) |
| Profit before income tax | 263,933 | 410,391 |

Note:

- (i) Impairment on property, plant and equipment and intangible assets due to declining volumes and cancellations on specific customer programmes in China, as set out in notes 6 and 9.

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, 2019, the North America segment and Asia Pacific segment recognised US\$23,057,000 (2018: US\$23,540,000) and US\$4,777,000 (2018: US\$2,294,000), respectively.

The geographic distribution of revenue for the years ended December 31, 2019 and 2018 is as follows:

| | For the year ended December 31, | |
|----------------------|--|-----------------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| North America: | | |
| US | 1,455,468 | 1,701,197 |
| Mexico | 993,324 | 924,112 |
| Asia Pacific: | | |
| China | 569,361 | 722,429 |
| Rest of Asia Pacific | 73,218 | 59,083 |
| EMEASA: | | |
| Poland | 410,503 | 437,297 |
| Rest of EMEASA | 73,783 | 68,052 |
| | 3,575,657 | 3,912,170 |

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (Continued)**5.2 Segment information** (Continued)

The geographic distribution of non-current assets excluding deferred income tax assets as at December 31, 2019 and 2018 is as follows:

| | As at December 31, | |
|----------------------|---------------------------|-----------------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| North America: | | |
| US | 942,769 | 877,691 |
| Mexico | 280,232 | 235,646 |
| Asia Pacific: | | |
| China | 270,342 | 238,145 |
| Rest of Asia Pacific | 27,370 | 20,620 |
| EMEASA: | | |
| Poland | 153,927 | 138,926 |
| Rest of EMEASA | 52,579 | 29,647 |
| Others | 297 | — |
| | 1,727,516 | 1,540,675 |

Disaggregation of revenue

| | North America | Asia Pacific | EMEASA | Total |
|---|----------------------|---------------------|-----------------|------------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| For the year ended December 31, 2019 | | | | |
| EPS | 1,477,592 | 469,035 | 462,443 | 2,409,070 |
| CIS | 472,300 | 18,021 | 5,433 | 495,754 |
| HPS | 117,711 | 5,570 | 14,935 | 138,216 |
| DL | 381,189 | 149,953 | 1,475 | 532,617 |
| | 2,448,792 | 642,579 | 484,286 | 3,575,657 |

| | North America | Asia Pacific | EMEASA | Total |
|---|----------------------|---------------------|-----------------|-----------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| For the year ended December 31, 2018 | | | | |
| EPS | 1,472,657 | 576,120 | 476,002 | 2,524,779 |
| CIS | 611,518 | 26,991 | 7,696 | 646,205 |
| HPS | 130,025 | 7,827 | 19,047 | 156,899 |
| DL | 411,109 | 170,574 | 2,604 | 584,287 |
| | 2,625,309 | 781,512 | 505,349 | 3,912,170 |

Notes to the Consolidated Financial Statements

5 REVENUE AND SEGMENT INFORMATION (Continued)**5.2 Segment information** (Continued)*Revenue by Type*

| | For the year ended December 31, | |
|---|------------------------------------|-----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Production Parts | 3,538,368 | 3,870,854 |
| Tooling | 26,195 | 22,776 |
| Engineering Design and Development/Prototypes | 11,094 | 18,540 |
| | 3,575,657 | 3,912,170 |

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, | |
|------------|------------------------------------|-----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| GM | 1,389,817 | 1,649,322 |
| Customer A | 773,407 | 824,599 |
| Customer B | 640,881 | 605,470 |
| | 2,804,105 | 3,079,391 |

Notes to the Consolidated Financial Statements

6 PROPERTY, PLANT AND EQUIPMENT

| | Freehold land and land improvement US\$'000 | Leasehold improvements 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, 2018 | | | | | | | |
| 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 |
| Year ended December 31, 2018 | | | | | | | |
| Opening net book amount | 10,061 | 11,786 | 40,969 | 701,795 | 2,615 | 116,892 | 884,118 |
| Additions, net | 808 | 567 | 9,830 | 155,932 | 344 | 13,375 | 180,856 |
| Disposals | (10) | (3) | (30) | (5,607) | (7) | – | (5,657) |
| Depreciation | (101) | (2,078) | (2,002) | (104,187) | (412) | – | (108,780) |
| Exchange differences | (286) | (297) | (1,013) | (13,603) | (103) | (1,991) | (17,293) |
| Net book amount as at December 31, 2018 | 10,472 | 9,975 | 47,754 | 734,330 | 2,437 | 128,276 | 933,244 |
| As at January 1, 2019 | | | | | | | |
| Cost | 12,777 | 19,426 | 62,223 | 1,254,098 | 4,425 | 128,276 | 1,481,225 |
| Accumulated depreciation | (2,305) | (9,451) | (14,469) | (519,768) | (1,988) | – | (547,981) |
| Net book amount | 10,472 | 9,975 | 47,754 | 734,330 | 2,437 | 128,276 | 933,244 |
| Adoption of IFRS 16⁽ⁱ⁾ | (62) | – | (5,378) | (801) | – | – | (6,241) |
| Year ended December 31, 2019 | | | | | | | |
| Opening net book amount | 10,410 | 9,975 | 42,376 | 733,529 | 2,437 | 128,276 | 927,003 |
| Additions, net | 265 | 2,699 | 8,196 | 159,514 | 1,399 | 29,307 | 201,380 |
| Impairment | – | – | – | (6,540) | – | – | (6,540) |
| Disposals | (22) | (68) | – | (10,001) | (19) | – | (10,110) |
| Depreciation | (160) | (3,964) | (1,704) | (109,671) | (547) | – | (116,046) |
| Exchange differences | (84) | (40) | (377) | (4,225) | (35) | (1,172) | (5,933) |
| Net book amount as at December 31, 2019 | 10,409 | 8,602 | 48,491 | 762,606 | 3,235 | 156,411 | 989,754 |
| As at December 31, 2019 | | | | | | | |
| Cost | 12,855 | 20,469 | 64,563 | 1,378,037 | 5,665 | 156,411 | 1,638,000 |
| Accumulated depreciation | (2,446) | (11,867) | (16,072) | (615,431) | (2,430) | – | (648,246) |
| Net book amount | 10,409 | 8,602 | 48,491 | 762,606 | 3,235 | 156,411 | 989,754 |

- (i) As set out in note 2, the Group adopted IFRS 16, *Leases*, effective January 1, 2019. Existing financing lease assets were reclassified from property, plant and equipment to right-of-use assets at that date.

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\$20,328,000 as at December 31, 2019 (December 31, 2018: US\$38,412,000).

Depreciation has been charged to the following function of expenses:

| | For the year ended December 31, | |
|---|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Cost of sales | 103,635 | 98,200 |
| Engineering and product development costs | 7,498 | 6,344 |
| Administrative expenses | 4,913 | 4,236 |
| | 116,046 | 108,780 |

During the year ended December 31, 2019, the Group recorded impairment of US\$6,540,000 within cost of sales in the Asia Pacific segment on machinery, equipment and tooling related to equipment that had been purchased for specific customer programmes. Due to a decline in volumes and cancellations on specific customer programmes the equipment was deemed to be impaired. There was no impairment to property, plant and equipment for the year ended December 31, 2018.

The additions for the year ended December 31, 2019 include US\$620,000 of capitalised borrowing costs (2018: US\$298,000). Borrowing costs were capitalised at the weighted average of the borrowing rates of 6.1% for the year ended December 31, 2019 (2018: 6.1%).

7 LEASES

The Group's leases are mainly comprised of real-estate, such as manufacturing facilities and office buildings and personal property, such as machinery and equipment and furniture and office equipment. Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

| | Real-Estate | Other | Total US\$'000 |
|---|---------------|--------------|-------------------|
| Balance as at January 1, 2019 | 53,304 | 7,750 | 61,054 |
| Depreciation charge for the year ended December 31, 2019 | 10,628 | 1,857 | 12,485 |
| Balance as at December 31, 2019 | 50,604 | 7,570 | 58,174 |

Additions to the right-of-use assets during the year ended December 31, 2019 were US\$11,249,000.

Notes to the Consolidated Financial Statements

7 LEASES (Continued)**Right-of-use assets** (Continued)

Depreciation has been charged to the following function of expenses:

| | For the year ended December 31, 2019 US\$'000 |
|---|---|
| Cost of sales | 7,539 |
| Engineering and product development costs | 2,333 |
| Administrative expenses | 2,613 |
| | 12,485 |

Lease liabilities

(i) Lease liabilities:

| | As at December 31, 2019 US\$'000 | As at December 31, 2018 US\$'000 |
|------------------------------|---|---|
| Within 1 year | 15,612 | 2,192 |
| Between 1 and 2 years | 13,392 | 1,781 |
| Between 2 and 5 years | 29,691 | 1,730 |
| Over 5 years | 15,454 | – |
| | 74,149 | 5,703 |
| Less: future finance charges | (12,477) | (590) |
| | 61,672 | 5,113 |

(ii) Maturity of lease liabilities:

| | As at December 31, 2019 US\$'000 | As at December 31, 2018 US\$'000 |
|---------------------------|---|---|
| Within 1 year | 12,291 | 1,881 |
| Between 1 and 2 years | 10,536 | 1,602 |
| Between 2 and 5 years | 24,669 | 1,630 |
| Over 5 years | 14,176 | – |
| | 61,672 | 5,113 |
| Less: non-current portion | (49,381) | (3,232) |
| Current portion | 12,291 | 1,881 |

For the year ended December 31, 2019, the Group recognised interest on lease liabilities of US\$3,803,000 in the consolidated income statement.

For the year ended December 31, 2019, the Group recognised total cash outflow for leases of US\$12,619,000 in the consolidated statement of cash flows as a financing activity.

Notes to the Consolidated Financial Statements

8 LAND USE RIGHTS

| | For the year ended December 31, | |
|---------------------------------|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Cost | | |
| As at January 1 | 4,015 | 1,910 |
| Additions, net (i) | (409) | 2,239 |
| Exchange differences | (50) | (134) |
| As at December 31 | 3,556 | 4,015 |
| Accumulated amortisation | | |
| As at January 1 | 495 | 410 |
| Amortisation (ii) | 79 | 91 |
| Exchange differences | (3) | (6) |
| As at December 31 | 571 | 495 |
| Net book amount | | |
| As at December 31 | 2,985 | 3,520 |

(i) Current year activity represents government grants received in the current year relating to costs that were capitalised in prior years.

(ii) Amortisation of land use rights is recorded as cost of sales in the Consolidated Income Statement.

Notes to the Consolidated Financial Statements

9 INTANGIBLE ASSETS

| | Product development costs US\$'000 | Computer software development costs US\$'000 | Total US\$'000 |
|---------------------------------|---|--|-------------------|
| Cost | | | |
| As at January 1, 2018 | 732,786 | 27,523 | 760,309 |
| Additions | 155,570 | 427 | 155,997 |
| Exchange differences | (2,617) | – | (2,617) |
| As at December 31, 2018 | 885,739 | 27,950 | 913,689 |
| Accumulated amortisation | | | |
| As at January 1, 2018 | 253,188 | 12,591 | 265,779 |
| Amortisation | 81,391 | 5,247 | 86,638 |
| Exchange differences | (661) | – | (661) |
| As at December 31, 2018 | 333,918 | 17,838 | 351,756 |
| Net book amount | | | |
| As at December 31, 2018 | 551,821 | 10,112 | 561,933 |
| Cost | | | |
| As at January 1, 2019 | 885,739 | 27,950 | 913,689 |
| Additions | 183,167 | 166 | 183,333 |
| Impairment | (19,572) | – | (19,572) |
| Disposals | – | (910) | (910) |
| Exchange differences | (1,117) | – | (1,117) |
| As at December 31, 2019 | 1,048,217 | 27,206 | 1,075,423 |
| Accumulated amortisation | | | |
| As at January 1, 2019 | 333,918 | 17,838 | 351,756 |
| Amortisation | 92,570 | 5,142 | 97,712 |
| Disposals | – | (910) | (910) |
| Exchange differences | (282) | – | (282) |
| As at December 31, 2019 | 426,206 | 22,070 | 448,276 |
| Net book amount | | | |
| As at December 31, 2019 | 622,011 | 5,136 | 627,147 |

The additions for the year ended December 31, 2019 include US\$14,585,000 of capitalised interest related to the borrowings associated with developmental costs (2018: US\$13,193,000). Borrowing costs were capitalised at the weighted average of the borrowing rates of 6.1% for the year ended December 31, 2019 (2018: 6.1%).

Notes to the Consolidated Financial Statements

9 INTANGIBLE ASSETS (Continued)

Amortisation has been charged to the following function of expenses:

| | For the year ended December 31, | |
|-------------------------|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Cost of sales | 96,399 | 85,216 |
| Administrative expenses | 1,313 | 1,422 |
| | 97,712 | 86,638 |

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 8.5% and 13.5%, 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.

During the year ended December 31, 2019, the Group recorded a product development intangible asset impairment of US\$19,572,000 related to declining volumes and cancellations on specific customer programmes in China. The impairment is recorded in the consolidated income statement as cost of sales in the amount of US\$3,651,000 and in engineering and product development costs in the amount of US\$15,921,000 with US\$6,928,000 recorded in the Asia Pacific segment and US\$12,644,000 recorded in the North America segment. A portion of the intangible asset impairment associated with customer programmes in China is recorded in the North America segment due the Company's US domiciled intellectual property holdings. There was no impairment of intangible assets for the year ended December 31, 2018.

Notes to the Consolidated Financial Statements

10 DEFERRED INCOME TAXES

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

| | As at December 31, | |
|---|---------------------------|-----------------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Deferred income tax assets: | | |
| To be recovered after more than 12 months | 5,803 | 4,447 |
| To be recovered within 12 months | 17,502 | 13,555 |
| | 23,305 | 18,002 |
| Deferred income tax liabilities: | | |
| To be settled after more than 12 months | (85,262) | (97,791) |
| | (85,262) | (97,791) |
| Deferred income tax liabilities, net | (61,957) | (79,789) |

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

| | As at December 31, | |
|--------------------------------------|---------------------------|-----------------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Deferred income tax assets | 11,829 | 8,621 |
| Deferred income tax liabilities | (73,786) | (88,410) |
| Deferred income tax liabilities, net | (61,957) | (79,789) |

Notes to the Consolidated Financial Statements

10 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, 2018 | 1,744 | 10,552 | 45,006 | 1,869 | – | 7,460 | 66,631 |
| Credit (charged) to income statement | 1,496 | 4,416 | (14,509) | 22,192 | – | 3,392 | 16,987 |
| Charged to equity | – | (17) | – | – | – | – | (17) |
| Exchange differences | (79) | (60) | (114) | (14) | – | (25) | (292) |
| As at December 31, 2018 | 3,161 | 14,891 | 30,383 | 24,047 | – | 10,827 | 83,309 |
| As at January 1, 2019 | 3,161 | 14,891 | 30,383 | 24,047 | – | 10,827 | 83,309 |
| Credit (charged) to income statement | 365 | (4,228) | 1,266 | 5,022 | – | 1,805 | 4,230 |
| Credit to equity | – | 1,064 | – | – | – | – | 1,064 |
| Exchange differences | 95 | 74 | 138 | 17 | – | 30 | 354 |
| As at December 31, 2019 | 3,621 | 11,801 | 31,787 | 29,086 | – | 12,662 | 88,957 |
| Deferred income tax liabilities | | | | | | | |
| As at January 1, 2018 | (11,119) | (667) | (274) | – | (104,988) | (10,153) | (127,201) |
| (Charged) credit to income statement | (40,341) | (1,182) | 1,439 | – | 7,468 | (603) | (33,219) |
| Charged to equity | – | – | (2,613) | – | – | – | (2,613) |
| Exchange differences | (21) | – | (30) | – | – | (14) | (65) |
| As at December 31, 2018 | (51,481) | (1,849) | (1,478) | – | (97,520) | (10,770) | (163,098) |
| As at January 1, 2019 | (51,481) | (1,849) | (1,478) | – | (97,520) | (10,770) | (163,098) |
| (Charged) credit to income statement | 5,208 | 1,717 | 385 | – | 7,214 | (2,416) | 12,108 |
| Exchange differences | 26 | – | 33 | – | – | 17 | 76 |
| As at December 31, 2019 | (46,247) | (132) | (1,060) | – | (90,306) | (13,169) | (150,914) |

Notes to the Consolidated Financial Statements

10 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 as management believes it is more likely than not that they would not be utilised before expiration as follows:

| | As at December 31, | |
|----------------------------------|--------------------|----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Tax losses | 13,825 | 13,279 |
| Deductible temporary differences | 2,345 | 3,691 |
| | 16,170 | 16,970 |

As at December 31, 2019, the Group has US\$10,108,000 (December 31, 2018: US\$11,027,000) 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, 2019, the Group has US\$61,978,000 (December 31, 2018: US\$46,716,000) of non-US gross NOL carry-forwards which have various expiration dates of which a significant amount is unlimited.

As at December 31, 2019, deferred income tax liabilities of US\$10,169,000 (December 31, 2018: US\$5,734,000) have been provided for withholding tax that would be payable on the portion of unremitted earnings of certain subsidiaries intended to be distributed in the foreseeable future and it is probable that the temporary differences will not reverse 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\$1,657,057,000 as at December 31, 2019 (December 31, 2018: US\$1,378,772,000).

11 INVENTORIES

| | As at December 31, | |
|---------------------------------------|--------------------|----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Raw materials | 179,902 | 165,667 |
| Work in progress | 33,579 | 34,099 |
| Finished goods | 68,616 | 54,171 |
| | 282,097 | 253,937 |
| Less: provision for impairment losses | (16,051) | (19,634) |
| | 266,046 | 234,303 |

The cost of inventories recognised as an expense and included in cost of sales for the year ended December 31, 2019 amounted to US\$2,779,590,000 (2018: US\$3,017,789,000).

The carrying amounts of inventories pledged as collateral were US\$138,306,000 as at December 31, 2019 (December 31, 2018: US\$123,237,000).

Notes to the Consolidated Financial Statements

12 TRADE RECEIVABLES

| | As at December 31, | |
|--------------------------------|--------------------|----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Trade receivables, gross | 546,396 | 530,512 |
| Less: provision for impairment | (1,721) | (1,653) |
| | 544,675 | 528,859 |

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, | |
|---------------|--------------------|----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| 0 to 30 days | 305,117 | 302,180 |
| 31 to 60 days | 215,942 | 183,478 |
| 61 to 90 days | 20,412 | 37,844 |
| Over 90 days | 4,925 | 7,010 |
| | 546,396 | 530,512 |

Trade receivables of US\$26,895,000 were past due but not impaired as at December 31, 2019 (December 31, 2018: US\$30,881,000). 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, | |
|-----------------------|--------------------|----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Overdue up to 30 days | 18,293 | 24,897 |
| Overdue 31 to 60 days | 2,410 | 936 |
| Overdue 61 to 90 days | 1,717 | 551 |
| Overdue over 90 days | 4,475 | 4,497 |
| | 26,895 | 30,881 |

The provision for impairment of receivables includes estimates and assessments of individual receivables based on the expected credit loss method.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses below incorporate forward looking information.

Trade receivables of US\$1,721,000 were impaired as at December 31, 2019 on which provisions were made (December 31, 2018: US\$1,653,000). These individually impaired receivables are relatively long overdue.

Notes to the Consolidated Financial Statements

12 TRADE RECEIVABLES (Continued)

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

| | For the year ended December 31, | |
|--------------------------|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| As at January 1 | 1,653 | 1,257 |
| Addition of provision | 96 | 448 |
| Exchange differences | (28) | (52) |
| As at December 31 | 1,721 | 1,653 |

The carrying amounts of trade receivables pledged as collateral were US\$332,631,000 as at December 31, 2019 (December 31, 2018: US\$267,081,000).

13 OTHER RECEIVABLES AND PREPAYMENTS

| | As at December 31, | |
|--|--------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Income and other taxes recoverable (i) | 53,387 | 75,678 |
| Prepaid assets | 39,571 | 34,150 |
| Deposits to vendors | 5,385 | 6,769 |
| Contract assets (ii) | 33,572 | 28,248 |
| Others | 5,102 | 4,713 |
| | 137,017 | 149,558 |
| Less: non-current portion | (29,949) | (25,034) |
| Current portion | 107,068 | 124,524 |

Note:

- (i) Balance mainly represents income and value-added tax recoverable and certain incentives granted to the Group for investing capital and maintaining jobs in the state of Michigan, USA.
- (ii) As set out in note 5, under IFRS 15, the Group has some contracts with customers that require revenue to be recognised over time as costs are incurred. Contract assets balance represents rights to consideration for work completed but not billed, related to production parts, reimbursable customer tooling and engineering services.

14 RESTRICTED BANK DEPOSITS

As at December 31, 2019, restricted bank deposits of US\$11,000 (December 31, 2018: US\$3,000) are maintained with banks for issuance of letters of credit and pledges of bank borrowings.

Notes to the Consolidated Financial Statements

15 CASH AND CASH EQUIVALENTS

The Group's RMB balances of US\$240,307,000 are deposited with banks in China as at December 31, 2019 (December 31, 2018: US\$170,141,000). 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.

16 OTHER RESERVES

| | Share premium US\$'000 | Merger reserve US\$'000 | Share-based compensation reserve US\$'000 | Exchange reserve US\$'000 | Total other reserves US\$'000 |
|--|---------------------------|----------------------------|--|------------------------------|----------------------------------|
| As at January 1, 2018 | 106,747 | 113,000 | 7,548 | (43,271) | 184,024 |
| Dividends paid to shareholders | (69,954) | – | – | – | (69,954) |
| Value of employee services provided under share-option scheme (note 25(a)) | – | – | (138) | – | (138) |
| Transfer to share premium under exercise of share options | 470 | – | (470) | – | – |
| Exercise of options | 1,026 | – | – | – | 1,026 |
| Exchange differences, net of tax | – | – | – | (41,365) | (41,365) |
| As at December 31, 2018 | 38,289 | 113,000 | 6,940 | (84,636) | 73,593 |
| Dividends paid to shareholders | (41,701) | – | – | – | (41,701) |
| Value of employee services provided under share-option scheme (note 25(a)) | – | – | 946 | – | 946 |
| Transfer to share premium under exercise of share options | 970 | – | (970) | – | – |
| Exercise of options | 2,442 | – | – | – | 2,442 |
| Exchange differences, net of tax | – | – | – | (13,096) | (13,096) |
| As at December 31, 2019 | – | 113,000 | 6,916 | (97,732) | 22,184 |

Notes:

(a) 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\$77,734,000 relating to the Group's year ended December 31, 2018 earnings was paid during the year ended December 31, 2019 (year ended December 31, 2018: US\$69,954,000), US\$41,701,000 was paid from share premium, with the remaining US\$36,033,000 paid out of retained earnings. See Consolidated Statement of Changes in Equity.

(b) 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, 2019 and 2018 represent the aggregate amount of share capital of PCM US Steering Holding LLC and PCM (Singapore) Steering Holding Pte. Limited.

(c) 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 recognised related to those option.

(d) 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.

Notes to the Consolidated Financial Statements

17 BORROWINGS

| | As at December 31, | |
|--|--------------------|----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Non-current | | |
| Borrowings from banks | | |
| – secured (note (1a)) | – | 4,216 |
| – unsecured (note (1b)) | – | 60,582 |
| Notes (note (1d)) | 250,000 | 250,000 |
| Lease liabilities (note (1e)) | 49,381 | 3,232 |
| Debt issuance costs (note (1f)) | (1,171) | (2,504) |
| | 298,210 | 315,526 |
| Current | | |
| Borrowings from banks | | |
| – secured, others (note (1c)) | 157 | 534 |
| Add: current portion of: | | |
| – non-current secured borrowings (note (1a)) | – | 4,216 |
| – non-current unsecured borrowings (note (1b)) | 60,000 | 61,000 |
| – Lease liabilities (note (1e)) | 12,291 | 1,881 |
| – Debt issuance costs (note (1f)) | (1,332) | (1,403) |
| | 71,116 | 66,228 |
| Total borrowings | 369,326 | 381,754 |

(1) Note:

- (a) This primarily includes long-term borrowings of US\$nil (December 31, 2018: US\$8,432,000) which bear interest at EURIBOR plus 3.1% and was scheduled to mature in December 2020. This was repaid during February 2019.
- (b) This primarily includes:
- (i) Bank loans totaling US\$60,000,000 as at December 31, 2019 (December 31, 2018: US\$121,000,000), 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 were scheduled to mature in October 2020. These were repaid during January 2020 as set out in note 35.
 - (ii) Long-term borrowings of US\$nil (December 31, 2018: US\$582,000) which bears interest at 4.75% and was scheduled to mature in August 2020. This was repaid during January 2019.

Notes to the Consolidated Financial Statements

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

- (c) This primarily includes:
- (i) A revolving line of credit of US\$nil as at December 31, 2019 (December 31, 2018: US\$nil) with availability to borrow up to US\$325,000,000 obtained by a subsidiary of the Group which bears interest at LIBOR plus a range of 1.25% to 1.75% per annum, depending on borrowing type, matures in February 2023 and is secured by trade receivables and inventories.
 - (ii) A factoring facility of US\$nil as at December 31, 2019 (December 31, 2018: US\$nil) with availability to borrow up to US\$44,813,000 by a subsidiary of the Group which bears interest at EURIBOR plus 1.05% per annum, is secured by trade receivables and expires in December 2020.
 - (iii) A revolving line of credit of US\$157,000 as at December 31, 2019 (December 31, 2018: US\$nil) with availability to borrow up to US\$2,804,000 by a subsidiary of the Group which bears interest at the Marginal Cost of Funds Based Lending Rate plus 0.8% per annum, is secured by property, plant and equipment, trade receivables and inventories and expires in June 2020.
 - (iv) A revolving line of credit of US\$nil as at December 31, 2019 (December 31, 2018: US\$534,000) with availability to borrow up to US\$2,804,000 by a subsidiary of the Group which bears interest at the Marginal Cost of Funds Based Lending Rate plus 0.5% per annum, is secured by property, plant and equipment, trade receivables and inventories and expires in September 2020.
- (d) Notes of US\$250,000,000 in aggregate principal amount of 5.875% senior unsecured notes maturing in November 2021.
- (e) Details on lease liabilities set out in note 7.
- (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\$2,503,000 as at December 31, 2019 (December 31, 2018: US\$3,907,000).

Notes to the Consolidated Financial Statements

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

| | As at December 31, | |
|-----------------------|---------------------------|-----------------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Within 1 year | 71,116 | 66,228 |
| Between 1 and 2 years | 259,648 | 65,067 |
| Between 2 and 5 years | 24,386 | 250,459 |
| Over 5 years | 14,176 | – |
| | 369,326 | 381,754 |

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

| | As at December 31, | | | |
|-----------------|---------------------------|-----------------|-------------------|-----------------|
| | Carrying Amount | | Fair value | |
| | 2019 | 2018 | 2019 | 2018 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Bank borrowings | – | 63,637 | – | 65,789 |
| Notes | 249,373 | 248,657 | 252,676 | 252,669 |
| | 249,373 | 312,294 | 252,676 | 318,458 |

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 0.91% to 4.31% as at December 31, 2018, depending on the type of the debt and were within Level 2 of the fair value hierarchy. The Group had no outstanding non-current bank borrowings as at December 31, 2019.

The fair values of notes 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, | |
|-----------------|---------------------------|-------------|
| | 2019 | 2018 |
| Bank borrowings | 6.6% | 6.4% |
| Notes | 5.9% | 5.9% |

Notes to the Consolidated Financial Statements

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

| | As at December 31, | |
|--------------|--------------------|----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| US\$ | 334,805 | 372,206 |
| RMB | 15,514 | 581 |
| Euro | 12,685 | 8,433 |
| Indian rupee | 4,938 | 534 |
| Others | 1,384 | – |
| | 369,326 | 381,754 |

18 RETIREMENT BENEFITS AND COMPENSATION

| | As at December 31, | |
|--|--------------------|----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Pension – defined benefit plans (note (a)) | 15,949 | 11,945 |
| Extended disability benefits (note (b)) | 3,808 | 4,118 |
| Workers' compensation (note (c)) | 6,484 | 6,742 |
| | 26,241 | 22,805 |
| Less: non-current portion | (22,856) | (19,058) |
| Current portion | 3,385 | 3,747 |

(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

18 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, 2019 | | | For the year ended December 31, 2018 | | |
|--|--------------------------------------|---------------------|-------------------|--------------------------------------|---------------------|-------------------|
| | 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)) | 16,020 | 1,579 | 17,599 | 11,924 | 1,519 | 13,443 |
| Fair value of plan assets (note (ii)) | (1,650) | – | (1,650) | (1,498) | – | (1,498) |
| Deficit of funded plans | 14,370 | 1,579 | 15,949 | 10,426 | 1,519 | 11,945 |

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, 2019.

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

| | For the year ended December 31, 2019 | | | For the year ended December 31, 2018 | | |
|--|--------------------------------------|---------------------|-------------------|--------------------------------------|---------------------|-------------------|
| | 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 | 11,924 | 1,519 | 13,443 | 11,239 | 1,599 | 12,838 |
| Current service cost | 799 | – | 799 | 749 | – | 749 |
| Past service cost | 225 | – | 225 | 350 | – | 350 |
| Interest cost | 648 | 52 | 700 | 524 | 44 | 568 |
| Losses (gains) from changes in financial assumptions | 2,671 | 63 | 2,734 | (597) | (43) | (640) |
| Experience losses (gains) | 830 | 2 | 832 | 771 | (24) | 747 |
| Losses from changes in demographic assumptions | 66 | – | 66 | 97 | – | 97 |
| Exchange differences | 51 | – | 51 | (629) | – | (629) |
| Benefits paid | (1,194) | (57) | (1,251) | (580) | (57) | (637) |
| Ending balance | 16,020 | 1,579 | 17,599 | 11,924 | 1,519 | 13,443 |

Notes to the Consolidated Financial Statements

18 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, 2019 | | | For the year ended December 31, 2018 | | |
|---|--------------------------------------|---------------------|-------------------|--------------------------------------|---------------------|-------------------|
| | 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 | (1,498) | – | (1,498) | (1,495) | – | (1,495) |
| Interest income | (55) | – | (55) | (61) | – | (61) |
| Loss on plan assets, excluding amounts included in interest income | 2 | – | 2 | 26 | – | 26 |
| Administrative expenses | 4 | – | 4 | 4 | – | 4 |
| Employer contributions | (1,326) | (57) | (1,383) | (597) | (57) | (654) |
| Exchange differences | 29 | – | 29 | 45 | – | 45 |
| Benefits paid | 1,194 | 57 | 1,251 | 580 | 57 | 637 |
| Ending balance | (1,650) | – | (1,650) | (1,498) | – | (1,498) |

Plan assets comprise as follows:

| | As at December 31, | |
|---------------------------|--------------------|------|
| | 2019 | 2018 |
| Equities | 5% | 7% |
| Bonds | 5% | 6% |
| Cash and cash equivalents | 4% | 6% |
| Other | 86% | 81% |
| | 100% | 100% |

Amounts recognised in other comprehensive income:

| | For the year ended December 31, 2019 | | | For the year ended December 31, 2018 | | |
|--|--------------------------------------|---------------------|-------------------|--------------------------------------|---------------------|-------------------|
| | 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 | (2,671) | (63) | (2,734) | 597 | 43 | 640 |
| Experience (losses) gains | (830) | (2) | (832) | (771) | 24 | (747) |
| Losses from changes in demographic assumptions | (66) | – | (66) | (97) | – | (97) |
| Loss on plan assets, excluding amounts included in interest income | (2) | – | (2) | (26) | – | (26) |
| Total | (3,569) | (65) | (3,634) | (297) | 67 | (230) |

Notes to the Consolidated Financial Statements

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

Amount recognised in the consolidated income statement:

| | For the year ended December 31, 2019 | | | For the year ended December 31, 2018 | | |
|--|--------------------------------------|---------------------|-------------------|--------------------------------------|---------------------|-------------------|
| | 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 | 799 | – | 799 | 749 | – | 749 |
| Past service cost | 225 | – | 225 | 350 | – | 350 |
| Interest cost | 593 | 52 | 645 | 463 | 44 | 507 |
| Administrative expenses | 4 | – | 4 | 4 | – | 4 |
| Total | 1,621 | 52 | 1,673 | 1,566 | 44 | 1,610 |
| <i>Included in:</i> | | | | | | |
| Cost of sales | 926 | – | 926 | 986 | – | 986 |
| Engineering and product development costs | 482 | – | 482 | 425 | – | 425 |
| Selling and distribution costs | 38 | – | 38 | 33 | – | 33 |
| Administrative expenses | 175 | 52 | 227 | 122 | 44 | 166 |
| | 1,621 | 52 | 1,673 | 1,566 | 44 | 1,610 |

Principal actuarial assumptions used were as follows:

| | December 31, 2019 | | December 31, 2018 | |
|-----------------------|-------------------|---------|-------------------|---------|
| | Non-US plans | US SERP | Non-US plans | US SERP |
| Discount rate | 4.88% | 2.25% | 5.77% | 3.56% |
| Salary increase rate | 3.64% | N/A | 3.57% | N/A |
| Price inflation rate | 3.22% | N/A | 3.05% | N/A |
| Pension increase rate | 1.75% | N/A | 1.75% | N/A |

Notes to the Consolidated Financial Statements

18 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, 2019 | | | December 31, 2018 | | |
|--|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|-------------------|
| | 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 | 14,354 | 1,530 | 15,884 | 10,774 | 1,463 | 12,237 |
| 1% decrease in discount rate | 18,003 | 1,630 | 19,633 | 13,307 | 1,580 | 14,887 |
| 1% increase in salary increase rate | 17,140 | N/A | 17,140 | 12,736 | N/A | 12,736 |
| 1% decrease in salary increase rate | 15,020 | N/A | 15,020 | 11,195 | N/A | 11,195 |

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.

19 PROVISIONS

| | As at December 31, 2019 | | | As at December 31, 2018 | | |
|---------------------------------------|-------------------------|-----------------------------|-------------------|-------------------------|-----------------------------|-------------------|
| | Current US\$'000 | Non- current US\$'000 | Total US\$'000 | Current US\$'000 | Non- current US\$'000 | Total US\$'000 |
| Restructuring | – | – | – | 195 | – | 195 |
| Litigation (note (i)) | 598 | 235 | 833 | 59 | 208 | 267 |
| Environmental liabilities (note (ii)) | 150 | 11,978 | 12,128 | 150 | 12,003 | 12,153 |
| Warranties (note (iii)) | 21,254 | 41,017 | 62,271 | 10,976 | 57,304 | 68,280 |
| Decommissioning (note (iv)) | 267 | 8,574 | 8,841 | – | 8,215 | 8,215 |
| | 22,269 | 61,804 | 84,073 | 11,380 | 77,730 | 89,110 |

Notes to the Consolidated Financial Statements

19 PROVISIONS (Continued)

Movement of provisions is as follows:

| | Restructuring US\$'000 | Litigation (note (i)) US\$'000 | Environmental liabilities (note (ii)) US\$'000 | Warranties (note (iii)) US\$'000 | Decom- missioning (note (iv)) US\$'000 | Total US\$'000 |
|--------------------------------|---------------------------|--------------------------------------|---|--|---|-------------------|
| As at January 1, 2018 | 1,004 | 326 | 12,183 | 86,158 | 7,982 | 107,653 |
| Additions, net | – | 368 | – | 5,581 | 372 | 6,321 |
| Payments | (780) | (374) | (19) | (21,882) | (106) | (23,161) |
| Exchange differences | (29) | (53) | (11) | (1,577) | (33) | (1,703) |
| As at December 31, 2018 | 195 | 267 | 12,153 | 68,280 | 8,215 | 89,110 |
| As at January 1, 2019 | 195 | 267 | 12,153 | 68,280 | 8,215 | 89,110 |
| Additions, net | – | 959 | – | 5,804 | 661 | 7,424 |
| Payments | (197) | (385) | (23) | (11,286) | (25) | (11,916) |
| Exchange differences | 2 | (8) | (2) | (527) | (10) | (545) |
| As at December 31, 2019 | – | 833 | 12,128 | 62,271 | 8,841 | 84,073 |

Notes:

(i) Litigation

The balance represents a provision primarily for certain labour, commercial and product 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.

(ii) 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.

(iii) 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. For the year ended December 31, 2019, warranty provisions recorded were net of reversals of US\$19,468,000 which related to adjustments of provisions recorded in prior periods as a current period estimate revision based on improved spending trends (2018: US\$16,840,000).

(iv) Decommissioning

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

Notes to the Consolidated Financial Statements

20 DEFERRED REVENUE

In accordance with IFRS 15, contract liabilities are associated with consideration received from customers in advance of transferring goods promised in a contract. 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, 2019 | | | As at December 31, 2018 | | |
|-------------------------|-------------------------|-----------------------------|-------------------|-------------------------|-----------------------------|-------------------|
| | Current US\$'000 | Non- current US\$'000 | Total US\$'000 | Current US\$'000 | Non- current US\$'000 | Total US\$'000 |
| Pre-production activity | 27,843 | 76,474 | 104,317 | 29,894 | 75,824 | 105,718 |

Movement of deferred revenue is as follows:

| | As at December 31, | |
|-----------------------------|--------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| As at January 1 | 105,718 | 111,901 |
| Additions | 26,451 | 20,016 |
| Amortisation ⁽ⁱ⁾ | (27,834) | (25,834) |
| Exchange differences | (18) | (365) |
| As at December 31 | 104,317 | 105,718 |

(i) Current year amortisation of deferred revenue was included in the deferred revenue balance as at the beginning of the period.

21 TRADE PAYABLES

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

| | As at December 31, | |
|----------------|--------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| 0 to 30 days | 337,204 | 261,962 |
| 31 to 60 days | 171,952 | 201,247 |
| 61 to 90 days | 48,888 | 53,460 |
| 91 to 120 days | 9,645 | 22,314 |
| Over 120 days | 24,331 | 14,208 |
| | 592,020 | 553,191 |

Notes to the Consolidated Financial Statements

22 OTHER PAYABLES AND ACCRUALS

| | As at December 31, | |
|---------------------------|--------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Accrued expenses | 122,627 | 128,134 |
| Deposits from customers | 3,243 | 3,366 |
| Other taxes payable | 5,242 | 4,734 |
| Others | 7,139 | 8,253 |
| | 138,251 | 144,487 |
| Less: non-current portion | (9,621) | (4,277) |
| Current portion | 128,630 | 140,210 |

23 OTHER GAINS, NET

| | For the year ended December 31, | |
|---|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Foreign exchange gains, net | 1,182 | 4,794 |
| Loss on disposal of property, plant and equipment | (6,807) | (54) |
| Others | 7,145 | 10,098 |
| | 1,520 | 14,838 |

Notes to the Consolidated Financial Statements

24 EXPENSE BY NATURE

| | For the year ended December 31, | |
|--|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Raw materials used | 2,096,406 | 2,297,261 |
| Changes in inventories of finished goods and work-in-progress | 13,925 | (13,737) |
| Employee benefit costs (note 25) (i) | 497,702 | 537,391 |
| Temporary labour costs | 128,722 | 127,696 |
| Supplies and tools (i) | 221,381 | 234,883 |
| Depreciation on property, plant and equipment (note 6) | 116,046 | 108,780 |
| Depreciation on right-of-use assets (note 7) | 12,485 | – |
| Amortisation on | | |
| – land use rights (note 8) | 79 | 91 |
| – intangible assets (note 9) | 97,712 | 86,638 |
| Impairment (reversals) charges on | | |
| – inventories (note 11) | (3,583) | 3,186 |
| – trade receivables (note 12) | 96 | 448 |
| – intangible assets (note 9) (ii) | 19,572 | – |
| – property, plant and equipment (note 6) (ii) | 6,540 | – |
| Operating lease expenses | – | 15,679 |
| Warranty expenses (note 19) | 5,804 | 5,581 |
| Auditors' remuneration | | |
| – audit services | 2,477 | 2,495 |
| – non-audit services | 2,325 | 1,640 |
| Others | 86,826 | 94,921 |
| Total cost of sales, engineering and product development costs, selling and distribution, and administrative expenses | 3,304,515 | 3,502,953 |

(i) Supplies and tools in the amount of US\$36,400,000 have been reclassified from employee benefit costs to supplies and tools in 2018 to conform to the 2019 presentation.

(ii) Impairment on property, plant and equipment and intangible assets due to declining volumes and cancellations on specific customer programmes in China, as set out in notes 6 and 9, respectively.

Notes to the Consolidated Financial Statements

25 EMPLOYEE BENEFIT COSTS

| | For the year ended December 31, | |
|---|------------------------------------|----------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Salary expenses | 343,840 | 375,722 |
| Pension costs – defined contribution plans | 28,263 | 26,313 |
| Pension costs – defined benefit plans (note 18) | 1,673 | 1,610 |
| Other employee costs | 123,926 | 133,746 |
| | 497,702 | 537,391 |

(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 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

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

On May 30, 2018, the Board of Directors approved a fifth grant of share options under the Scheme, pursuant to which options to subscribe for 12,972,770 shares, representing approximately 0.518% 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\$12.456 per share.

On August 21, 2019, the Board of Directors approved a sixth grant of share options under the Scheme, pursuant to which options to subscribe for 13,675,070 shares, representing approximately 0.545% of the issued share capital of the Company as at the date of grant, were granted to 16 selected participants at the exercise price of HK\$6.390 per share.

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, 2018 | 9.384 | 21,645 |
| Granted | 12.456 | 12,973 |
| Exercised | 7.520 | (1,084) |
| Expired | — | — |
| Forfeited | — | — |
| As at December 31, 2018 | 10.633 | 33,534 |
| Exercisable as at December 31, 2018 | 8.496 | 11,774 |
| As at January 1, 2019 | 10.633 | 33,534 |
| Granted | 6.390 | 13,675 |
| Exercised | 10.510 | (1,840) |
| Expired | 10.439 | (5,868) |
| Forfeited | 10.497 | (1,756) |
| As at December 31, 2019 | 9.138 | 37,745 |
| Exercisable as at December 31, 2019 | 9.326 | 13,672 |

Notes to the Consolidated Financial Statements

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

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, 2020 | 11.620 | 3,212 |
| May 29, 2020 | 12.456 | 3,856 |
| May 29, 2021 | 12.456 | 3,856 |
| August 20, 2020 | 6.390 | 4,383 |
| August 20, 2021 | 6.390 | 4,383 |
| August 20, 2022 | 6.390 | 4,383 |

The weighted average fair value of options granted during the period determined using a binomial valuation model was HK\$2.59 per option. The significant inputs into the model were share price at the measurement date of HK\$6.390, exercise price of HK\$6.390, volatility of 40%, dividend yield of 1.5%, an expected term of 8.77 years, and an annual risk-free interest rate of 1.08%. 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 its share price history to determine the historical volatility.

The fair value of the share options charged to the consolidated income statement was US\$1,232,000 for the year ended December 31, 2019 (year ended December 31, 2018: US\$2,475,000).

(b) Directors' emoluments

The remuneration of each director for the year ended December 31, 2019 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) | — | 800 | 850 | 30 |
| Mr. FAN, Yi (i) | — | 220 | 98 | 105 |
| Mr. RICHARDSON, Michael Paul (i) (xiii) | — | 1,615 | 14 | 178 |
| Mr. WEI, Kevin Cheng | 65 | — | — | — |
| Mr. LIU, Jianjun | 53 | — | — | — |
| Mr. YANG, Shengqun (x) | 17 | — | — | — |
| Mr. YICK, Wing Fat Simon | 65 | — | — | — |
| Mr. ZHANG, Jianxun | 40 | — | — | — |
| Mr. WANG, Jian (xi) | 58 | — | — | — |
| Mr. LIU, Ping (xii) | 23 | — | — | — |

Notes to the Consolidated Financial Statements

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

The remuneration of each director for the year ended December 31, 2018 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) | 158 | 173 | 850 | 3 |
| Mr. FAN, Yi (i) | — | 220 | 120 | 244 |
| Mr. RICHARDSON, Michael Paul (i) (xiii) | — | 565 | 570 | 138 |
| Mr. WEI, Kevin Cheng | 65 | — | — | — |
| Mr. LIU, Jianjun | 53 | — | — | — |
| Mr. YANG, Shengqun (x) | 40 | — | — | — |
| Mr. YICK, Wing Fat Simon | 65 | — | — | — |
| Mr. ZHANG, Jianxun | 30 | — | — | — |

* Chief Executive Officer of the Company

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, 2019, 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 (2018: Nil).
- (v) During the year ended December 31, 2019, 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 (2018: Nil).
- (vi) During the year ended December 31, 2019, no consideration was provided to or receivable by third parties for making available director's services (2018: Nil).
- (vii) There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2018: 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 (2018: 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. YANG, Shenqun retired as a non-Executive Director with effect from June 3, 2019.

Notes to the Consolidated Financial Statements

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

Notes: (Continued)

- (xi) Mr. WANG, Jian was elected and appointed as the Chairman of the Board with effect from June 3, 2019.
- (xii) Mr. LIU, Ping was appointed as a non-Executive Director with effect from June 3, 2019.
- (xiii) Mr. RICHARDSON, Michael Paul retired as an Executive Director with effect from January 1, 2020.
- (xiv) 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, 2019, the deferred incentive compensation of Mr. ZHAO, Guibin; Mr. FAN, Yi; Mr. RICHARDSON, Michael Paul; Mr. YANG, Shengqun and Mr. ZHANG, Jianxun were approximately US\$933,000, US\$232,000, US\$104,000, US\$27,000 and US\$27,000, (2018: US\$744,000, US\$251,000, US\$1,006,000, US\$66,000 and US\$39,000) 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 25(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, May 29, 2017, May 30, 2018 and August 21, 2019 amounting to HK\$2.710, HK\$3.920, HK\$3.320, HK\$4.440, HK\$4.450 and HK\$2.590 per option, respectively. When the actual share price is lower than the exercise price of HK\$5.150, HK\$8.610, HK\$7.584, HK\$11.620, HK\$12.456 and HK\$6.390 per share for options granted on June 11, 2014, June 10, 2015, June 10, 2016, May 29, 2017, May 30, 2018 and August 21, 2019, 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, 2019 include two directors (2018: two), whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2018: three) individuals during the year are as follows:

| | For the year ended December 31, | |
|--|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Salaries and allowances | 1,322 | 1,306 |
| Annual and deferred incentive compensation | 2,536 | 2,919 |
| Other benefits | 422 | 296 |
| | 4,280 | 4,521 |

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

| | For the year ended December | |
|---|-------------------------------|-------------------------------|
| | 2019 Number of individuals | 2018 Number of individuals |
| HK\$6,500,000 – HK\$7,000,000 (US\$835,000 – US\$899,000) | – | 1 |
| HK\$7,000,000 – HK\$7,500,000 (US\$899,000 – US\$963,000) | 1 | – |
| HK\$11,000,000 – HK\$11,500,000 (US\$1,413,000 – US\$1,477,000) | 1 | – |
| HK\$12,000,000 – HK\$12,500,000 (US\$1,541,000 – US\$1,605,000) | – | 1 |
| HK\$14,500,000 – HK\$15,000,000 (US\$1,862,000 – US\$1,926,000) | 1 | – |
| HK\$16,000,000 – HK\$16,500,000 (US\$2,055,000 – US\$2,119,000) | – | 1 |

Notes to the Consolidated Financial Statements

26 FINANCE COSTS, NET

| | For the year ended December 31, | |
|---|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Finance income | | |
| Interest on bank deposits | 9,297 | 8,144 |
| Finance costs | | |
| Interest expense on bank borrowings | 7,696 | 11,271 |
| Interest on notes | 14,687 | 14,687 |
| | 22,383 | 25,958 |
| Interest on lease liabilities | 3,803 | 317 |
| Other finance costs | 3,260 | 4,643 |
| | 29,446 | 30,918 |
| Less: amount capitalised in qualifying assets (notes 6 and 9) | (15,205) | (13,491) |
| | 14,241 | 17,427 |
| Finance costs, net | 4,944 | 9,283 |

27 INCOME TAX EXPENSE

| | For the year ended December 31, | |
|-------------------------------|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Current income tax | 45,613 | 9,813 |
| Deferred income tax (note 10) | (16,338) | 16,232 |
| | 29,275 | 26,045 |

Taxation on the Group's profits has been calculated on the estimated assessable profits for both years at the statutory rates of 21%, 25% and 19% in US, China and Poland, respectively, from where the Group's profits were mainly generated.

Notes to the Consolidated Financial Statements

27 INCOME TAX EXPENSE (Continued)

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, | |
|---|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Profit before income tax | 263,933 | 410,391 |
| Tax calculated at rates applicable to profits in respective countries | 69,065 | 103,296 |
| Expenses not deductible for tax purposes | 8,869 | 2,776 |
| Non-taxable income | (27,331) | (29,771) |
| Tax credits (note (i)) | (17,347) | (43,821) |
| Preferential rates and tax holidays (note (ii)) | (15,009) | (19,144) |
| Tax losses and deductible temporary differences for which no deferred tax was recognised | (55) | 976 |
| US state and withholding taxes | 11,489 | 8,625 |
| Others | (406) | 3,108 |
| Tax charge | 29,275 | 26,045 |

Note:

- (i) Mainly represents research and royalty incentives. A large percentage of the 2018 amount is primarily the result of US research tax credits and deductions, net of applicable reserves, generated in prior year open tax periods of US\$27.1 million.
- (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.

28 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, | |
|---|------------------------------------|-----------|
| | 2019 | 2018 |
| Profit attributable to the equity holders of the Company (US\$'000) | 232,445 | 379,657 |
| Weighted average number of ordinary shares in issue (thousands) | 2,506,966 | 2,505,312 |
| Basic earnings per share (in US\$) | 0.09 | 0.15 |

Notes to the Consolidated Financial Statements

28 EARNINGS PER SHARE (Continued)**(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, 2019. 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, 2019) 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, 2019 and 2018, the details are within the table below.

| | For the year ended December 31, | |
|--|------------------------------------|-----------|
| | 2019 | 2018 |
| Profit attributable to equity holders of the Company, used to determine diluted earnings per share (US\$'000) | 232,445 | 379,657 |
| Weighted average number of ordinary shares in issue (thousands) | 2,506,966 | 2,505,312 |
| Adjustment for share options (thousands) | 1,849 | 4,176 |
| Weighted average number of ordinary shares in issue for calculating diluted earnings per share (thousands) | 2,508,815 | 2,509,488 |
| Diluted earnings per share (in US\$) | 0.09 | 0.15 |

29 DIVIDENDS

| | For the year ended December 31, | |
|---|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Dividend proposed of US\$0.0325 (2018: US\$0.031) per share | 81,495 | 77,677 |

This dividend was proposed by the directors at a meeting held on March 29, 2020, the date of approval of these Consolidated Financial Statements, which is not reflected as a dividend payable in these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

30 CONSOLIDATED STATEMENTS OF CASH FLOWS**(a) Cash generated from operations**

| | For the year ended December 31, | |
|---|--|-----------------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| Profit before income tax | 263,933 | 410,391 |
| Adjustments for: | | |
| Finance costs | 14,241 | 17,427 |
| Depreciation on property, plant and equipment | 116,046 | 108,780 |
| Impairment of property, plant and equipment (i) | 6,540 | – |
| Depreciation on right-of-use assets | 12,485 | – |
| Amortisation on land use rights and intangible assets | 97,791 | 86,729 |
| Impairment charges on intangible assets | 19,572 | – |
| Amortisation of deferred revenue | (27,834) | (25,834) |
| Impairment (reversals) charges on inventories and receivables | (3,291) | 4,082 |
| Share of loss of joint ventures | 3,785 | 4,381 |
| Share-based compensation | 1,232 | 2,475 |
| Loss on disposal of property, plant and equipment | 6,807 | 54 |
| | 511,307 | 608,485 |
| Changes in working capital: | | |
| (Increase) decrease in receivables | (30,048) | 77,054 |
| Increase in inventories | (29,712) | (2,931) |
| Increase (decrease) in payables and accruals | 36,263 | (30,967) |
| Decrease in provisions | (5,136) | (17,200) |
| (Decrease) increase in retirement benefits and compensations | (110) | 2,561 |
| Increase in deferred revenue | 26,452 | 20,016 |
| Cash generated from operations | 509,016 | 657,018 |

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

Major non-cash transactions

During the year ended December 31, 2019, the Group purchased property, plant and equipment, which were recorded in payables in the amounts of US\$59,430,000 (2018: US\$60,495,000).

During the year ended December 31, 2019, the Group settled trade payables to suppliers with bank notes received from customers to settle trade receivables in the amount of US\$25,772,000 (2018: US\$44,035,000). These transactions were specific to China.

Notes to the Consolidated Financial Statements

30 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**(b) Net borrowings reconciliation**

Movements in net borrowings for the year ended December 31, 2019 are as follows:

| | Borrowings due within a year US\$'000 | Borrowings due after a year US\$'000 | Total US\$'000 |
|------------------------------|--|---|---------------------------|
| As at January 1, 2018 | 77,036 | 414,145 | 491,181 |
| Cash flows | (78,054) | (33,929) | (111,983) |
| Foreign exchange adjustments | (183) | (255) | (438) |
| Other non-cash movements | 67,429 | (64,435) | 2,994 |
| As at December 31, 2018 | 66,228 | 315,526 | 381,754 |
| Adoption of IFRS 16 | 10,737 | 47,882 | 58,619 |
| Cash flows | (78,444) | (3,880) | (82,324) |
| Foreign exchange adjustments | (150) | (493) | (643) |
| Other non-cash movements | 72,745 | (60,825) | 11,920 |
| As at December 31, 2019 | 71,116 | 298,210 | 369,326 |

31 COMMITMENTS**(a) Capital commitments**

The Group has capital commitments of US\$147,140,000 as at December 31, 2019 to purchase property, plant and equipment, which are contracted but not provided for (December 31, 2018: US\$154,590,000).

(b) Operating lease commitments

The Group's future aggregate minimum lease payments under non-cancellable operating leases as at December 31, 2018 were as follows:

| | As at December 31, 2018 US\$'000 |
|--------------|---|
| Up to 1 year | 12,719 |
| 1 to 5 years | 40,466 |
| Over 5 years | 18,320 |
| | 71,505 |

Notes to the Consolidated Financial Statements

32 RELATED PARTY TRANSACTIONS

- (a) **Transactions with Yubei Steering Systems Co., Ltd. (Yubei Steering) and Xingxiang Addway Automotive Technology Co., Ltd. (Addway), associates of AVIC**

| | For the year ended December 31, | |
|-------------------|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Purchase of goods | 178 | 599 |

As at September 10, 2018, Yubei Steering transferred the rights to the business dealings with the Group to Yubei Steering's wholly-owned subsidiary, Addway. All future business dealings with Yubei Steering contemplated under Yubei Transactions will be transacted with Addway.

- (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, was formed to design and manufacture EPS systems for Dongfeng Motor Group Co., Ltd. and its affiliated companies. Production began during 2019, but the JV has not yet commenced significant customer production.

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, 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, 2019 the Group's carrying amount of its investments in joint ventures is US\$19,507,000 including US\$11,985,000, US\$7,522,000 and US\$nil related to Chongqing Nexteer, Dongfeng Nexteer and CNXMotion, respectively, (December 31, 2018: US\$11,255,000, US\$5,689,000, US\$nil). For the year ended December 31, 2019, the Group's share of income (losses) from its joint ventures amount to (US\$3,785,000), including US\$730,000, (US\$1,015,000), and (US\$3,500,000) related to Chongqing Nexteer, Dongfeng Nexteer and CNXMotion, respectively, (year ended December 31, 2018: US\$588,000, (US\$2,176,000), (US\$2,793,000)).

Notes to the Consolidated Financial Statements

32 RELATED PARTY TRANSACTIONS (Continued)**(b) Transactions with joint ventures (Continued)**

The following table sets forth the transactions between the Group and its joint ventures.

| | For the year ended December 31, | |
|---|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Sale of product, equipment and services (i) | 52,392 | 44,112 |
| Purchase of services (i) | 10,040 | 15,251 |

(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, | |
|---|------------------------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 |
| Basic salaries, other allowances and benefits | 8,129 | 5,631 |
| Bonuses | 7,028 | 8,992 |
| Others | 1,081 | 985 |
| | 16,238 | 15,608 |

These remunerations are determined based on the performance of individuals and market trends.

Notes to the Consolidated Financial Statements

33 BALANCE SHEET OF THE COMPANY

The balance sheet of the Company on a non-consolidated basis is as follows:

| | As at December 31, | |
|-------------------------------------|---------------------------|-----------------|
| | 2019 | 2018 |
| | US\$'000 | US\$'000 |
| ASSETS | | |
| Non-current assets | | |
| Investments in subsidiaries | 730,786 | 729,839 |
| Right-of-use assets | 156 | – |
| Other receivables and prepayments | 77,532 | 114,303 |
| | 808,474 | 844,142 |
| Current assets | | |
| Other receivables and prepayments | 75,817 | 27,411 |
| Cash and cash equivalents | 65 | 45 |
| | 75,882 | 27,456 |
| Total assets | 884,356 | 871,598 |
| EQUITY | | |
| Capital and reserves | | |
| Share capital | 32,347 | 32,324 |
| Other reserves | 511,316 | 549,629 |
| Retained earnings | 21,305 | 26,894 |
| Total equity | 564,968 | 608,847 |
| Non-current liabilities | | |
| Borrowings | 249,480 | 248,657 |
| Deferred income tax liabilities | 7,138 | 5,012 |
| | 256,618 | 253,669 |
| Current liabilities | | |
| Other payables and accruals | 62,770 | 9,082 |
| Total equity and liabilities | 884,356 | 871,598 |

The balance sheet of the Company was approved by the Board of Directors on March 29, 2020 and was signed on its behalf.

Zhao, Guibin

Director

Fan, Yi

Director

Notes to the Consolidated Financial Statements

33 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 | Retained earnings/ (accumulated losses) US\$'000 | Total reserves US\$'000 |
|--|------------------------------|--|--------------------------------|--|-------------------------------|
| As at January 1, 2018 | 106,747 | 7,548 | 504,400 | (8,804) | 609,891 |
| Gain for the year | – | – | – | 35,698 | 35,698 |
| Value of employee services provided under share-option scheme (note 25(a)) | – | (138) | – | – | (138) |
| Transfer to share premium under exercise of share options | 470 | (470) | – | – | – |
| Dividends paid to shareholders | (69,954) | – | – | – | (69,954) |
| Exercise of share options | 1,026 | – | – | – | 1,026 |
| As at December 31, 2018 | 38,289 | 6,940 | 504,400 | 26,894 | 576,523 |
| Gain for the year | – | – | – | 30,444 | 30,444 |
| Value of employee services provided under share-option scheme (note 25(a)) | – | 946 | – | – | 946 |
| Transfer to share premium under exercise of share options | 970 | (970) | – | – | – |
| Dividends paid to shareholders | (41,701) | – | – | (36,033) | (77,734) |
| Exercise of share options | 2,442 | – | – | – | 2,442 |
| As at December 31, 2019 | – | 6,916 | 504,400 | 21,305 | 532,621 |

34 SHARE CAPITAL

| | Number of ordinary shares | Amount |
|---------------------------------------|------------------------------|-----------------|
| <i>Issued and fully paid:</i> | | |
| HK\$0.10 each as at January 1, 2018 | 2,504,621,083 | HK\$250,462,108 |
| Exercise of share options | 1,083,880 | HK\$108,388 |
| HK\$0.10 each as at December 31, 2018 | 2,505,704,963 | HK\$250,570,496 |
| Exercise of share options | 1,839,870 | HK\$183,987 |
| HK\$0.10 each as at December 31, 2019 | 2,507,544,833 | HK\$250,754,483 |

Notes to the Consolidated Financial Statements

35 SUBSEQUENT EVENTS

- (a) On January 7, 2020, the Company paid the remaining balance of US\$60,000,000 of two of its USD denominated term loans. The Company recognised a loss of US\$747,000 related to the repayment.
- (b) As set out in note 5 to the Consolidated Financial Statements, the Company's China revenue, including both revenue derived from local OEM customers as well as export revenue, totalled US\$569.4 million for the year ended December 31, 2019. Due to the evolving developments and impacts associated with the COVID-19 outbreak in China, the Company's manufacturing facilities in China experienced a staggered restart to component production following the Lunar New Year holiday governed by local government restrictions and requirements. While the Company's China manufacturing operations have been able to meet customer production requirements, customer demand has significantly contracted to date adversely impacting OEM production.

Furthermore, the COVID-19 outbreak has also impacted the Company's global suppliers as well as suppliers who operate in China. These suppliers are relied upon for export of components used in the manufacturing of products provided to customers served by our North America, EMEASA and Asia Pacific segments. Working diligently with both customers and suppliers, the Company has been able to meet the production demand of its global OEM customers to date.

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic as the virus has continued to expand throughout Asia, Europe and North America, with many countries and jurisdictions declaring states of emergency and implementing public safety actions in an attempt to contain further spread. The Company has taken commensurate actions outlined by both health agencies, as well as complying with country specific mandates. During the course of March 2020, many of the Company's OEM customers announced plans to temporarily close their production facilities in Europe and North America. As a result, the Company is coordinating closely with each of its impacted customers and has closed or adjusted production at its facilities in the United States, Mexico, Poland and elsewhere as necessary. Given these customer actions, the Company's first half 2020 financial results are expected to be significantly lower compared with same period in 2019, however, the Company is unable to quantify the total financial impact of the on-going global pandemic at this time.

Given the rapidly developing worldwide situation regarding COVID-19 and its potential impacts on the economies of afflicted regions, and the inherent difficulty in predicting the potential impact on the Company's facilities, employees, customers, suppliers and logistics providers, the Company is unable to quantify any further potential impact of the COVID-19 pandemic at this time.

- (c) All of the Company's United States hourly production employees are subject to a collective bargaining agreement (**Union or Agreement**) that was scheduled to expire on March 21, 2020. The Company and the Union have extended the current Agreement until June 20, 2020 so negotiations can continue. While the Company and the Union continue to work towards a mutually beneficial new Agreement, there can be no assurances that negotiations with the Union will be resolved favourably or that the Company will not experience a work stoppage or disruption that could adversely affect the Company's operating results and financial condition.

Notes to the Consolidated Financial Statements

36 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\$197,600,000 and SGD 1 | 100% | Investment holding |
| <i>Indirectly held:</i> | | | | |
| Nexteer Automotive (Suzhou) Co., Ltd. | China January 24, 2007 | US\$32,800,000 | 100% | Manufacturing of steering components, regional technical centre |
| Nexteer Automotive Australia Pty Ltd. | Australia January 23, 2008 | AUD\$2,849,108 | 100% | Customer service centre |
| Nexteer Automotive Corporation | Delaware, US January 2, 2008 | US\$1 | 100% | Manufacturing of steering and driveline components, global technical centre |
| Nexteer Automotive France SAS | France March 25, 2008 | EUR 1,287,000 | 100% | Customer service centre, engineering centre |
| Nexteer Automotive Germany GmbH | Germany January 2, 2008 | EUR 25,000 | 100% | Customer service centre, engineering centre |
| Nexteer Automotive India Private Limited | India February 25, 2008 | INR 207,917,940 | 100% | Manufacturing of steering and driveline components, software service centre |
| 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 3,400,000,000 | 100% | Customer support, engineering centre |

Notes to the Consolidated Financial Statements

36 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 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 34,653,600 | 100% | Manufacturing of steering and driveline components |
| Nexteer Automotive Poland sp. z o.o. | Poland January 2, 1997 | PLN 20,923,750 | 100% | Manufacturing of steering components, regional technical centre |
| Nexteer Automotive Systems (Liuzhou) Co., Ltd. | China January 8, 2015 | US\$10,000,000 | 100% | Manufacturing of steering components |
| Nexteer Cayman Finance Limited | Cayman Islands October 21, 2019 | US\$2 | 100% | Intragroup financing |
| Nexteer Hungary Finance Kft. | Hungary March 13, 2019 | US\$12,000 | 100% | Intragroup financing |
| Nexteer Industria e Comercio de Sistemas Automotivos Ltda. | Brazil February 22, 2007 | BRL 311,423,316 | 100% | Manufacturing of steering and driveline components |
| Nexteer Lingyun Driveline (Wuhu) Co., Ltd. | China December 22, 2006 | US\$22,400,000 | 60% | Manufacturing of driveline components |
| Nexteer Lingyun Driveline (Zhuozhou) Co., Ltd. | China October 6, 1995 | US\$22,000,000 | 60% | Manufacturing of driveline components |
| Nexteer Luxembourg Holding VI S.à r.l. (formerly Rhodes I LLC) | Luxembourg (previously Michigan, US) November 7, 2007 | EUR 85,000 | 100% | Investment holding |
| Nexteer Luxembourg Holding VII S.à r.l. (formerly Rhodes II LLC) | Luxembourg (previously Michigan, US) November 7, 2007 | EUR 85,000 | 100% | Investment holding |
| Nexteer Otomotiv Sanayi ve Ticaret Limited Sirketi | Turkey March 28, 2008 | TRY 1,105,000 | 100% | Manufacturing of steering components |
| Nexteer US Holding I LLC | Delaware, US May 18, 2007 | – | 100% | Investment holding |

Notes to the Consolidated Financial Statements

36 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 |
|--|---|-------------------------------|------------------------------------|---|
| 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 |
| Steering Holding Pte. Ltd. | Singapore February 15, 2008 | US\$6,400,000 and EUR 1 | 100% | Engineering centre, 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% | Employee support services |
| Steering Solutions IP Holding Corporation | Delaware, US January 2, 2008 | US\$1 | 100% | Intellectual property management |
| Steeringmex S. de R.L. de C.V. | Mexico December 14, 2007 | MXN 100,292,971 | 100% | Manufacturing of steering and driveline 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

| | 2019 US\$'000 | For the year ended December 31, | | | |
|--|--------------------|---------------------------------|------------------|------------------|------------------|
| | | 2018 US\$'000 | 2017 US\$'000 | 2016 US\$'000 | 2015 US\$'000 |
| RESULTS | | | | | |
| Revenue | 3,575,657 | 3,912,170 | 3,878,009 | 3,842,244 | 3,360,512 |
| Profit before income tax | 263,933 | 410,391 | 405,049 | 386,006 | 283,364 |
| Income tax expense | (29,275) | (26,045) | (49,171) | (84,141) | (73,216) |
| Profit for the year | 234,658 | 384,346 | 355,878 | 301,865 | 210,148 |
| Profit attributable to: | | | | | |
| Equity holders of the Company | 232,445 | 379,657 | 351,769 | 294,723 | 205,432 |
| Non-controlling interests | 2,213 | 4,689 | 4,109 | 7,142 | 4,716 |
| | 234,658 | 384,346 | 355,878 | 301,865 | 210,148 |
| Earnings per share, USD | | | | | |
| Basic and diluted | 0.09 | 0.15 | 0.14 | 0.12 | 0.08 |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | 3,258,972 | 3,111,511 | 2,979,383 | 2,693,368 | 2,456,822 |
| Total liabilities | (1,407,316) | (1,401,667) | (1,538,668) | (1,602,345) | (1,602,457) |
| Total equity | 1,851,656 | 1,709,844 | 1,440,715 | 1,091,023 | 854,365 |
| Capital and reserves attributable to equity holders of the Company | 1,811,981 | 1,671,810 | 1,402,411 | 1,058,991 | 827,422 |
| Non-controlling interests | 39,675 | 38,034 | 38,304 | 32,032 | 26,943 |
| | 1,851,656 | 1,709,844 | 1,440,715 | 1,091,023 | 854,365 |