Nexteer Automotive Group Limited
耐世特汽車系統集團有限公司

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

(Stock Code: 1316)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2023

The Board of Directors (the **Board**) of Nexteer Automotive Group Limited (the **Company**) announces the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively **we**, **us**, **our**, or the **Group**) for the six months ended June 30, 2023, together with the comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
For the six months ended June 30, 2023

	Notes	For the six months ended June 30, 2023 US$'000 (Unaudited)	2022 US$'000 (Unaudited)
Revenue	*2*	**2,101,830**	1,791,067
Cost of sales	*3*	**(1,910,999)**	(1,641,254)
Gross profit		**190,831**	149,813
Engineering and product development costs	*3*	**(68,006)**	(60,241)
Selling and distribution expenses	*3*	**(10,150)**	(9,302)
Administrative expenses	*3*	**(67,157)**	(70,724)
Other gains, net	*4*	**1,300**	12,460
Operating profit		**46,818**	22,006
Finance income	*5*	**2,325**	1,769
Finance costs	*5*	**(3,206)**	(1,414)
		(881)	355
Share of results of joint ventures, net		**(138)**	(1,640)
Profit before income tax		**45,799**	20,721
Income tax expense	*6*	**(8,397)**	(29,478)
Profit (loss) for the period		**37,402**	(8,757)
Profit (loss) for the period attributable to:			
Equity holders of the Company		**33,993**	(11,138)
Non-controlling interests		**3,409**	2,381
		37,402	(8,757)
Earnings (loss) per share for profit (loss) for the period attributable to equity holders of the Company for the period (expressed in US$ per share)			
– Basic and diluted	*7*	**0.014**	(0.004)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2023

	For the six months ended June 30,	
	2023	2022
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Profit (loss) for the period	**37,402**	(8,757)
Other comprehensive loss		
Item that may be reclassified subsequently to profit or loss		
Exchange differences	**(10,086)**	(45,126)
Total comprehensive income (loss) for the period	**27,316**	(53,883)
Total comprehensive income (loss) for the period attributable to:		
Equity holders of the Company	**25,718**	(53,908)
Non-controlling interests	**1,598**	25
	27,316	(53,883)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
As at June 30, 2023

	Notes	**As at June 30, 2023** *US$'000* **(Unaudited)**	As at December 31, 2022 *US$'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**957,385**	971,192
Right-of-use assets		**58,030**	62,146
Intangible assets		**733,309**	725,145
Deferred income tax assets		**24,704**	13,886
Investments in joint ventures		**18,670**	23,395
Income taxes receivable		**3,278**	21,108
Other receivables and prepayments		**25,220**	26,308
		1,820,596	1,843,180
Current assets			
Inventories		**291,982**	293,692
Trade receivables	*9*	**771,667**	753,104
Notes receivable	*10*	**47,238**	50,064
Income taxes receivable		**8,908**	28,504
Other receivables and prepayments		**120,515**	120,793
Restricted bank deposits		**467**	10
Cash and cash equivalents		**290,087**	245,934
		1,530,864	1,492,101
Total assets		**3,351,460**	3,335,281

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET *(continued)*
As at June 30, 2023

	Note	**As at June 30, 2023** ***US$'000*** **(Unaudited)**	As at December 31, 2022 *US$'000* (Audited)
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**32,377**	32,377
Other reserves		**(32,237)**	(24,362)
Retained earnings		**1,948,007**	1,925,810
		1,948,147	1,933,825
Non-controlling interests		**44,923**	43,325
Total equity		**1,993,070**	1,977,150
LIABILITIES			
Non-current liabilities			
Borrowings		**47,897**	49,838
Lease liabilities		**43,137**	48,376
Retirement benefits and compensations		**25,148**	23,038
Deferred income tax liabilities		**15,196**	18,944
Provisions		**65,455**	71,006
Deferred revenue		**97,041**	104,613
Other payables and accruals		**19,474**	15,875
		313,348	331,690
Current liabilities			
Trade payables	*11*	**818,560**	815,402
Other payables and accruals		**146,834**	134,523
Current income tax liabilities		**15,160**	12,928
Retirement benefits and compensations		**3,333**	4,132
Provisions		**21,353**	22,721
Deferred revenue		**25,361**	24,240
Lease liabilities		**14,441**	12,495
		1,045,042	1,026,441
Total liabilities		**1,358,390**	1,358,131
Total equity and liabilities		**3,351,460**	3,335,281

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2023

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 the 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, the People's Republic of China (**China**), Poland, India, Morocco and Brazil and are structured to supply its customers globally. The principal markets for the Group's products are North America, Europe, South America, China and India.

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 immediate holding company is Nexteer Automotive (Hong Kong) Holdings Limited.

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**).

This condensed consolidated interim financial information (**Condensed Financial Information**) is presented in thousands of US dollars (**US$'000**), unless otherwise stated. This Condensed Financial Information was approved by the Board of Directors of the Company (the **Board**) for issue on August 16, 2023.

This Condensed Financial Information has not been audited.

Basis of Preparation

This Condensed Financial Information has been prepared in accordance with International Accounting Standard (**IAS**) 34 "Interim Financial Reporting" and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This Condensed Financial Information should be read in conjunction with the annual financial statements for the year ended December 31, 2022, which have been prepared in accordance with all applicable International Financial Reporting Standards (**IFRS**), as issued by the International Accounting Standards Board (**IASB**) and disclosure requirements of the Hong Kong Companies Ordinance.

Accounting Policies

In addition to those described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2022, as described in those annual financial statements.

(a) New/revised standards, amendments to standards and interpretations

The Group has adopted the following amendments which are relevant to the Group and mandatory for the accounting period beginning on January 1, 2023.

Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules
Amendments to IAS 1/IFRS Practice Statement 2	Disclosure of Accounting Policies

The adoption of these amendments did not have a significant effect on the Group's Condensed Financial Information. The impacts on application of the amendments, if any, including additional disclosures, will be reflected in the Group's Consolidated Financial Statements for the year ending December 31, 2023.

2. REVENUE AND SEGMENT INFORMATION

2.1 Revenue from contracts with customers

The Group contracts with customers, which are generally automotive manufacturers, to sell steering and driveline systems and components. In connection with these contracts, the Group also 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	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. A limited number of the Group's customer arrangements for customised products with no alternative use provide the Group the right to payment during the production process. These revenues are recognised over time using the input method as performance obligations under the terms of a contract are satisfied. 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 ranging from 30 to 90 days.
Tooling	The Group's development and sale of tooling for customers is performed in connection with the preparations to produce and sell products to its customers. Customers typically pay for the tooling in a lump sum upon acceptance. The Group recognises revenue for tooling over time using the input method as it satisfies its performance obligation. Revenue is recognised to the extent of costs incurred to date for reimbursable tooling from customers.
Engineering Design and Development/ Prototypes	The Group recognises non-production related engineering design and development revenue/prototypes, which is normally related to research and development (**R&D**), performance improvement and business pursuit. The Group recognises revenue for non-production engineering design and development/prototypes revenue over time using the input method as it satisfies its performance obligations.

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/prototypes. The contract assets are reclassified into the receivables balance when the rights to receive payment become unconditional. Contract assets are assessed for impairment under the expected credit loss method in IFRS 9. 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)	**Contract liabilities, Current**(ii)	**Contract liabilities, Non-Current**(ii)
	US$'000	***US$'000***	***US$'000***
Balances as at June 30, 2023 (Unaudited)	51,365	25,361	97,041
Balances as at December 31, 2022 (Audited)	47,718	24,240	104,613

(i) Contract assets are recorded within current other receivables and prepayments. As at January 1, 2022, contract assets amount to US$43,791,000.

(ii) Contract liabilities are recorded within deferred revenue. As at January 1, 2022, contract liabilities amount to US$110,428,000.

2.2 Segment information

The Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's Chief Executive Officer (**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.

For internal management reporting purposes, a US-based subsidiary and a Mexico-based subsidiary which are separate operating segments have been aggregated into the North America reportable segment considering these operating segments have similar economic characteristics including their gross margin, operating profit, and Adjusted EBITDA as a percentage of revenue.

The key performance indicator that the Group monitors to manage segment operations is operating income before interest, taxes, depreciation and amortisation, net reversals of impairments on intangible assets and share of results of joint ventures (**Adjusted EBITDA**).

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 six months ended June 30, 2023 (Unaudited)					
Total revenue	**1,233,464**	**557,311**	**362,199**	**(29,032)**	**2,123,942**
Inter-segment revenue	**(38,945)**	**(13,328)**	**(1,050)**	**31,211**	**(22,112)**
Revenue from external customers	**1,194,519**	**543,983**	**361,149**	**2,179**	**2,101,830**
Adjusted EBITDA	**97,540**	**81,500**	**18,405**	**(11,311)**	**186,134**
For the six months ended June 30, 2022 (Unaudited)					
Total revenue	1,131,965	396,872	316,777	(30,607)	1,815,007
Inter-segment revenue	(36,867)	(18,400)	(611)	31,938	(23,940)
Revenue from external customers	1,095,098	378,472	316,166	1,331	1,791,067
Adjusted EBITDA	79,043	68,497	26,598	(16,021)	158,117

The revenue from external parties reported to the Group's CEO is measured in a manner consistent with that in the Condensed Financial Information.

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. 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 June 30, 2023 (Unaudited)					
Total assets	**1,695,309**	**1,096,932**	**746,701**	**(187,482)**	**3,351,460**
Total liabilities	**839,507**	**508,493**	**285,190**	**(274,800)**	**1,358,390**
As at December 31, 2022 (Audited)					
Total assets	1,730,348	1,162,857	699,174	(257,098)	3,335,281
Total liabilities	843,300	565,739	267,190	(318,098)	1,358,131

Adjusted EBITDA includes a non-cash component for revenue recognised from deferred revenue. For the six months ended June 30, 2023, the North America segment, Asia Pacific segment and EMEASA segment recognised US$16,982,000 (six months ended June 30, 2022: US$8,435,000), US$1,569,000 (six months ended June 30, 2022: US$1,327,000) and US$2,514,000 (six months ended June 30, 2022: US$2,272,000), respectively. Reconciliations of reportable segment Adjusted EBITDA to the Group's profit before income tax are as follows:

	For the six months ended June 30,	
	2023	2022
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Adjusted EBITDA from reportable segments	**186,134**	158,117
Depreciation and amortisation	**(146,229)**	(136,111)
Reversals of impairments on intangible assets, net	**1,729**	–
Customer recovery income	**5,184**	–
Finance income	**2,325**	1,769
Finance costs	**(3,206)**	(1,414)
Share of results of joint ventures, net	**(138)**	(1,640)
Profit before income tax	**45,799**	20,721

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.

The geographic distribution of revenue for the six months ended June 30, 2023 and 2022 is as follows:

	For the six months ended June 30,	
	2023	2022
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
North America:		
US	**709,033**	641,476
Mexico	**485,486**	453,622
Asia Pacific:		
China	**464,570**	314,813
Rest of Asia Pacific	**79,413**	63,659
EMEASA:		
Poland	**201,586**	186,579
Rest of EMEASA	**159,563**	129,587
Other	**2,179**	1,331
	2,101,830	1,791,067

The geographic distribution of non-current assets, excluding deferred income tax assets, as at June 30, 2023 and December 31, 2022 is as follows:

	As at June 30, 2023 *US$'000* **(Unaudited)**	As at December 31, 2022 *US$'000* (Audited)
North America:		
US	**503,126**	546,501
Mexico	**463,447**	446,505
Asia Pacific:		
China	**380,260**	391,033
Rest of Asia Pacific	**35,147**	35,344
EMEASA:		
Poland	**311,421**	305,466
Rest of EMEASA	**88,372**	96,531
Others	**14,119**	7,914
	1,795,892	1,829,294

Disaggregation of revenue

	North America *US$'000*	**Asia Pacific** *US$'000*	**EMEASA** *US$'000*	**Others** *US$'000*	**Total** *US$'000*
For the six months ended June 30, 2023 (Unaudited)					
Electric Power Steering (**EPS**)	**753,224**	**380,352**	**306,904**	**2,173**	**1,442,653**
Steering Columns and Intermediate Shafts (**CIS**)	**167,126**	**16,709**	**4,272**	**6**	**188,113**
Hydraulic Power Steering (**HPS**)	**83,294**	**1,542**	**746**	**–**	**85,582**
Driveline Systems (**DL**)	**190,875**	**145,380**	**49,227**	**–**	**385,482**
	1,194,519	**543,983**	**361,149**	**2,179**	**2,101,830**

	North America *US$'000*	Asia Pacific *US$'000*	EMEASA *US$'000*	Others *US$'000*	Total *US$'000*
For the six months ended June 30, 2022 (Unaudited)					
EPS	691,207	259,935	273,668	1,584	1,226,394
CIS	158,292	5,613	5,085	(167)	168,823
HPS	77,825	425	4,744	(17)	82,977
DL	167,774	112,499	32,669	(69)	312,873
	1,095,098	378,472	316,166	1,331	1,791,067

Revenue by type

	For the six months ended June 30,	
	2023	2022
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Production parts	**2,082,835**	1,772,565
Tooling	**12,551**	13,413
Engineering design and development/prototypes	**6,444**	5,089
	2,101,830	1,791,067

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

	For the six months ended June 30,	
	2023	2022
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
General Motors Company and Subsidiaries	**721,887**	585,680
Customer A	**517,418**	492,470
Customer B	**340,123**	286,695
	1,579,428	1,364,845

3. EXPENSE BY NATURE

	For the six months ended June 30,	
	2023	2022
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Inventories used, including finished goods and work-in-progress	**1,391,251**	1,186,301
Employee benefit costs	**288,777**	256,930
Temporary labour costs	**59,971**	51,848
Supplies and tools	**101,633**	90,724
Depreciation on property, plant and equipment	**67,673**	68,331
Depreciation on right-of-use assets	**7,887**	6,587
Amortisation on intangible assets	**70,669**	61,193
Impairment charges (reversals), net, on		
– trade receivables	**55**	(26)
– intangible assets[(i)]	**(1,729)**	–
Write-down (reversal of write-down) on inventories	**1,438**	(574)
Warranty expenses	**4,816**	7,564
Auditors' remuneration		
– audit and non-audit services	**190**	306
Others	**63,681**	52,337
Total cost of sales, engineering and product development costs, selling and distribution, and administrative expenses	**2,056,312**	1,781,521

Note:

(i) For the six months ended June 30, 2023, US$4,100,000 represents reversals of impairment on a previously impaired programme and US$2,371,000 represents impairment related to programme cancellations and declining volumes on specific customer programmes.

4. OTHER GAINS, NET

	For the six months ended June 30,	
	2023	2022
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Foreign exchange (losses) gains, net	**(376)**	9,229
(Loss) gain on disposal of property, plant and equipment, net	**(432)**	899
Others	**2,108**	2,332
	1,300	12,460

5. FINANCE INCOME/FINANCE COSTS

	For the six months ended June 30,	
	2023	2022
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Finance income		
Interest on bank deposits	**2,325**	1,769
Finance costs		
Interest on bank borrowings	**2,384**	2,019
Interest on leases	**1,486**	1,364
Other finance costs	**2,131**	773
	6,001	4,156
Less: amount capitalised in qualifying assets	**(2,795)**	(2,742)
	3,206	1,414
	(881)	355

6. INCOME TAX EXPENSE

For the six months ended June 30, 2023, the Group recorded income tax expense in the Condensed Financial Information of US$8,397,000 (six months ended June 30, 2022: US$29,478,000).

For interim income tax reporting, the Group estimates its annual effective tax rate and applies it to its ordinary income for the six months ended June 30, 2023 and 2022. The tax effects of certain unusual or infrequently occurring items, including changes in judgement about whether it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be recovered and effects of changes in tax laws or rates are recognised in the interim period in which they occur.

During the six months ended June 30, 2023, the Group determined that its Brazil net operating losses are more likely than not to be realised due to cumulative income in recent years and other positive evidence. These net operating losses have no expiration and remain available to offset future income tax liabilities. As a result, the Group recognised net deferred tax assets of US$11.0 million for the six months ended June 30, 2023.

Based on the Amendments to IAS 12 "Income Taxes": International Tax Reform – Pillar Two Model Rules, the Group has applied the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

7. EARNINGS (LOSS) PER SHARE

a. Basic

Basic earnings (loss) per share is calculated by dividing the profit (loss) for the period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended June 30,	
	2023	2022
	(Unaudited)	(Unaudited)
Profit (loss) for the period attributable to equity holders of the Company *(US$'000)*	**33,993**	(11,138)
Weighted average number of ordinary shares in issue *(thousands)*	**2,509,824**	2,509,824
Basic earnings (loss) per share *(in US$)*	**0.014**	(0.004)

b. Diluted

Diluted earnings (loss) 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 shares issued under the Scheme that are vested as at June 30, 2023. 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 six months ended June 30, 2023) 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 (loss) per share. For the six months ended June 30, 2023, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options since their assumed exercise would result in an increase in earnings per share.

	For the six months ended June 30,	
	2023	2022
	(Unaudited)	(Unaudited)
Profit (loss) for the period attributable to equity holders of the Company, used to determine diluted earnings (loss) per share *(US$'000)*	**33,993**	(11,138)
Weighted average number of ordinary shares in issue *(thousands)*	**2,509,824**	2,509,824
Adjustment for share options *(thousands)*	**–**	211
Weighted average number of ordinary shares in issue for calculating diluted earnings (loss) per share *(thousands)*	**2,509,824**	2,510,035
Diluted earnings (loss) per share *(in US$)*	**0.014**	(0.004)

8. DIVIDEND

On June 20, 2023, the Board of Directors declared a dividend of approximately US$11,796,000 relating to the Group's year ended December 31, 2022 earnings payable on July 10, 2023. The Company declared a dividend of US$23,843,000 during the six months ended June 30, 2022 relating to the Group's year ended December 31, 2021 earnings. The Board does not recommend the payment of any interim dividend for the six months ended June 30, 2023 (six months ended June 30, 2022: US$nil).

9. TRADE RECEIVABLES

	As at June 30, 2023 *US$'000* **(Unaudited)**	As at December 31, 2022 *US$'000* (Restated and Audited)
Trade receivables, gross	**773,301**	754,683
Less: provision for impairment	**(1,634)**	(1,579)
	771,667	753,104

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 June 30, 2023 *US$'000* **(Unaudited)**	As at December 31, 2022 *US$'000* (Restated and Audited)
0 to 30 days	**514,629**	514,428
31 to 60 days	**215,233**	221,079
61 to 90 days	**23,892**	11,215
Over 90 days	**19,547**	7,961
	773,301	754,683

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

Trade receivables of US$1,634,000 (December 31, 2022: US$1,579,000) were non-credit impaired as at June 30, 2023 on which provisions were made.

The carrying amounts of trade receivables pledged as collateral were US$469,757,000 as at June 30, 2023 (December 31, 2022: US$459,144,000).

10. NOTES RECEIVABLE

Certain customers in China pay for goods and services through the use of notes receivable. As at June 30, 2023, notes receivable outstanding was in the amount of US$47,238,000 (December 31, 2022: US$50,064,000).

Ageing analysis of notes receivable based on note date is as follows:

	As at June 30, 2023 *US$'000* **(Unaudited)**	As at December 31, 2022 *US$'000* (Audited)
0 to 30 days	**26,702**	12,849
31 to 60 days	**2,893**	13,439
61 to 90 days	**3,513**	11,191
Over 90 days	**14,130**	12,585
	47,238	50,064

11. TRADE PAYABLES

	As at June 30, 2023 *US$'000* **(Unaudited)**	As at December 31, 2022 *US$'000* (Audited)
Trade payables	**769,427**	776,257
Notes payable	**49,133**	39,145
	818,560	815,402

Certain vendors in China are paid for goods and services through the use of notes payable. As at June 30, 2023, notes payable outstanding was in the amount of US$49,133,000 (December 31, 2022: US$39,145,000).

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

	As at June 30, 2023 *US$'000* **(Unaudited)**	As at December 31, 2022 *US$'000* (Audited)
0 to 30 days	**505,005**	443,154
31 to 60 days	**165,564**	228,815
61 to 90 days	**80,269**	84,666
91 to 120 days	**14,566**	18,348
Over 120 days	**53,156**	40,419
	818,560	815,402

12. SUBSEQUENT EVENT

A Company supplier is unable to meet its contracted supply of production parts. As a result, a customer has idled one of its manufacturing facilities. At this time, the Company is unable to estimate the potential damages, if any, it might be responsible for as to its customer. Nor is the Company able to estimate its ability to seek reimbursement of the damages that resulted from the breach of contractual obligations by the supplier.

FINANCIAL REVIEW

Financial Summary

The Group achieved record revenue of US$2.1 billion in the first six months of 2023. This represents a US$310.7 million or 17.4% increase compared to the same period in 2022. The revenue increase was driven by significant new and conquest programme launches over the past several years as well as increased industry production volumes. All segments delivered year over year revenue growth with Asia Pacific increasing the most, posting a 43.7% increase.

Adjusted EBITDA for the first six months of 2023 was US$186.1 million, an increase of US$28.0 million or 17.7% compared to the same period in 2022. The improved profitability is driven by the profit impact of increased revenue partially offset by elevated costs due to inflationary pressures and foreign currency exchange.

The Group's cash balance of US$290.1 million at June 30, 2023 represented an increase of US$44.2 million when compared with US$245.9 million as at December 31, 2022. For the six months ended June 30, 2023, the Group's net cash generated from operating activities was US$231.2 million, an increase of US$108.7 million compared with US$122.5 million for the same period of 2022. The increase in cash flows from operations was driven by increased earnings, favourable net working capital and a decrease in cash taxes paid for the six months ended June 30, 2023 compared with 2022. Cash from operating activities less cash used in investing activities was a source of US$59.9 million which compared favourably to a use of US$6.8 million in the same period of 2022. Cash used in financing activities during the six months ended June 30, 2023 was US$13.9 million, a decrease of (US$28.5 million), when compared with a generation of cash of US$14.6 million during the six months ended June 30, 2022. The main driver of the Group's unfavourability in cash (used in)/generated from financing activities was primarily due to increased borrowings due to term loans in China totaling US$52.3 million during the six months ended June 30, 2022 with no new borrowings taking place during the first half of 2023.

Operating Environment

The global automotive market has a direct impact on our business and operating results. Factors affecting the industry include macroeconomic influences such as consumer confidence, fluctuations in commodity prices, currency, fuel prices and regulatory environments. The ability to secure material and components from our supply-base is also critical, as evidenced by the semiconductor chip shortage which created a significant industry-wide challenge over the past few years. The Group operates primarily in the US, Mexico, China, Poland, India, Morocco and Brazil.

According to IHS Markit Ltd. (July 2023), global automotive original equipment manufacturers (**OEM**) light vehicle production for the six months ended June 30, 2023 was stronger than the six months ended June 30, 2022, increasing by 11.2%, with all markets served by the Group increasing. The following table highlights the percentage increases in OEM light vehicle production for the six months ended June 30, 2023 compared with the same period in 2022 for key markets served by the Group:

	First Half 2023
North America	12.0%
China	7.2%
India	6.4%
Europe	16.0%
South America	9.8%

The Group conducts its business from a global operating footprint to service its broad 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**), Chinese renminbi (**RMB**), and Mexican Peso (**MXN**). The Group's revenue and net profit was unfavourably impacted by foreign currency as the US dollar strengthened against the Euro and RMB and weakened against the MXN during the first six months of 2023 compared with the same period a year ago.

During the first six months of 2023, the Group successfully launched 32 new customer programmes – 11 programmes in North America, 1 programme in EMEASA and 20 programmes in Asia Pacific. Of the 32 programme launches, 30 represented new conquest business for the Group and 2 represented incumbent business. 19 programme launches represented customer electric vehicle (EV) programmes.

Revenue

The Group's revenue for the six months ended June 30, 2023 was US$2,101.8 million, an increase of US$310.7 million or 17.4%, compared with US$1,791.1 million for the six months ended June 30, 2022. Increased OEM light vehicle production across all regions and significant new and conquest programme launches over the past few years were the principal drivers for higher revenue during the first half of 2023 when compared with 2022. Unfavourable foreign currency translation tempered the Group's revenue increase by approximately US$42.4 million, given the strengthening of the US dollar against the RMB and the Euro during the first half of 2023 compared with the same period a year ago. Customer price reductions, resulting from the partial pass through of raw material commodity decreases during the first half of 2023 in comparison to the first half of 2022, provided a further reduction of revenue in the amount of US$12.0 million. Adjusting for unfavourable foreign currency translation and the decline in commodity pricing, the Company's revenue rose by 20.4% in the first half of 2023 compared with the same period a year ago, outpacing the revenue increase in OEM production for the comparative period by 920 basis points. This performance reflected the on-going benefit from the launch of new and conquest customer programmes in recent years.

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. The impact of foreign currency translation 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 periods indicated:

	For the six months ended June 30, 2023		For the six months ended June 30, 2022	
	US$'000 **(Unaudited)**	*%*	*US$'000* (Unaudited)	*%*
North America	**1,194,519**	**56.8**	1,095,098	61.1
Asia Pacific	**543,983**	**25.9**	378,472	21.1
EMEASA	**361,149**	**17.2**	316,166	17.7
Other	**2,179**	**0.1**	1,331	0.1
Total	**2,101,830**	**100.0**	1,791,067	100.0

The changes in revenue by geographical segments are primarily due to the following:

- North America segment – Revenue increased by US$99.4 million, or 9.1%, for the six months ended June 30, 2023 compared with the same period in 2022. The most significant factor contributing to the revenue increase was the improvement in the demand environment, with North America OEM light vehicle production for the first half of 2023 increasing by 12.0% compared with the same period in 2022, offset by customer price reductions related to raw material commodity inflation price decreases, amounting to US$11.6 million in the first half of 2023 compared to the same period in 2022.

- Asia Pacific segment – Revenue increased by US$165.5 million, or 43.7%, for the six months ended June 30, 2023 compared with the same period in 2022. The most significant factor contributing to the revenue was due to the significant new and conquest programme launches over the past few years. Increased OEM light vehicle production also contributed to revenue growth, with total Asia Pacific OEM production volumes higher by 9.8% for the first half of 2023 compared with the same period in 2022. Unfavourable foreign currency translation tempered the revenue growth in the region in the amount of US$38.4 million as the US dollar strengthened against the RMB during the first half of 2023 compared with the same period in 2022.

- EMEASA segment – Revenue increased by US$45.0 million, or 14.2%, for the six months ended June 30, 2023 compared with the same period in 2022, largely a result of an increase in Europe and South America OEM light vehicle production of 16.0% and 9.8%, respectively, during the first half of 2023 compared with the same period in 2022. Unfavourable foreign currency translation slightly tempered revenue in the region in the amount of US$3.9 million as the US dollar strengthened against the Euro during the first half of 2023 compared with the same period in 2022.

- Other – Revenue increased by US$0.8 million, or 63.7%, for the six months ended June 30, 2023 compared with the same period in 2022. Other revenue is related to non-production engineering design and development/prototype services. The increase is primarily a result of increased prototype expense reimbursement received from customers.

Revenue by Products

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

	For the six months ended June 30, 2023		For the six months ended June 30, 2022	
	US$'000 **(Unaudited)**	*%*	*US$'000* (Unaudited)	*%*
EPS	**1,442,653**	**68.6**	1,226,394	68.5
CIS	**188,113**	**9.0**	168,823	9.4
HPS	**85,582**	**4.1**	82,977	4.6
DL	**385,482**	**18.3**	312,873	17.5
Total	**2,101,830**	**100.0**	1,791,067	100.0

The Group experienced an increase in EPS revenue of US$216.3 million, or 17.6%, for the six months ended June 30, 2023 compared with the same period in 2022, driven by increased OEM light vehicle production across all geographical segments. CIS revenue increased by US$19.3 million, or 11.4%, for the six months ended June 30, 2023 compared with the same period a year ago. HPS revenue increased by US$2.6 million, or 3.1%, for the six months ended June 30, 2023 compared with the same period of 2022. DL revenue increased by US$72.6 million, or 23.2%, for the six months ended June 30, 2023 compared with the same period last year, as a result of higher OEM light vehicle production across all geographical segments.

Net Profit (Loss) Attributable to Equity Holders

The Group's net profit (loss) attributable to equity holders of the Company for the six months ended June 30, 2023 was US$34.0 million or 1.6% of total revenue, an increase of US$45.1 million, compared to a loss for the six months ended June 30, 2022 of US$11.1 million, or negative 0.6% of total revenue. The increase was principally attributable to the following factors:

- Revenue increase of US$310.7 million with profit margin flowing through to net profit.
- A decrease of US$21.1 million to income tax expense during the first half of 2023 compared to a year ago which primarily resulted from the Group's determination during 2022 that our US federal net deferred tax assets were not probable to be realised and the determination in the first half of 2023 that our Brazil net operating losses are more likely than not to be realised.
- Offset by macroeconomic factors including inflationary pressures related to labour, energy costs and materials. Unfavorable foreign currency exchange related to Euro and RMB weakening and MXN strengthening compared to the US dollar. These macro factors dampened earnings across all of the Group's segments for the six months ended June 30, 2023, when compared with the same period a year ago.

Cost of Sales

The Group's cost of sales for the six months ended June 30, 2023 was US$1,911.0 million, an increase of US$269.7 million, or 16.4%, from US$1,641.3 million for the six months ended June 30, 2022.

Raw material costs represent a significant portion of the Group's total cost of sales and for the six months ended June 30, 2023 totaled US$1,382.8 million, or 65.8% of revenue, compared with US$1,189.4 million, or 66.4% of revenue, for the same period last year, reflecting an increase of US$193.4 million, or 16.3%. The increase in raw material costs for the period when compared with the same period a year ago, is mainly attributable to the increase in revenue.

Depreciation and amortisation, including amortisation of capitalised product development costs, charged to cost of sales for the six months ended June 30, 2023 was US$134.9 million, an increase of US$9.7 million, or 7.7% from US$125.2 million for the six months ended June 30, 2022.

Amortisation of capitalised product development costs recorded as cost of sales amounted to US$70.6 million for the six months ended June 30, 2023, or 3.4% of revenue, an increase of US$9.8 million, or 16.1%, as compared with US$60.8 million, or 3.4% of revenue for the six months ended June 30, 2022. We expect amortisation to continue to increase in future years with the launch of new customer programmes that are currently in development.

Excluding raw material costs and depreciation and amortisation, remaining manufacturing costs of US$393.2 million, representing 18.7% of revenue for the first half of 2023 represented an increase of US$66.5 million, or 20.4%, when compared with US$326.7 million, or 18.2% of revenue, for the same period a year ago.

As a percent of revenue, cost of sales decreased to 90.9% for the first half of 2023 compared with 91.6% for the same period a year ago.

Gross Profit

The Group's gross profit for the six months ended June 30, 2023 was US$190.8 million, an increase of US$41.0 million, or 27.4%, when compared with US$149.8 million for the six months ended June 30, 2022. Gross profit margin for the six months ended June 30, 2023 was 9.1% compared with 8.4% for the six months ended June 30, 2022. The increase in gross profit was primarily attributable to the increase in revenue.

Engineering and Product Development Costs

For the six months ended June 30, 2023, the Group's engineering and product development costs charged to the income statement were US$68.0 million, representing 3.2% of revenue, an increase of US$7.8 million, or 13.0%, as compared to US$60.2 million, or 3.4% of revenue for the six months ended June 30, 2022. During the six months ended June 30, 2023, the Group recorded a net reversal of product development intangible asset impairments of US$1.7 million. The Group reversed impairments on a previously impaired programme of US$4.1 million in the Condensed Financial Information as engineering and product development costs in the North America segment. The Group recorded impairments of US$1.6 million and US$0.8 million related to programme cancellations and declining volumes on specific customer programmes recorded in the Condensed Financial Information as engineering and product development costs in the North America and EMEASA segments, respectively. In addition, the Group recorded customer recovery from a previously impaired programme of US$5.2 million in the Condensed Financial Information as engineering and product development costs in the North America segment. There was no impairment or reversal of impairment of product development intangible assets during the six months ended June 30, 2022.

Capitalised interest related to engineering development costs totaled US$2.8 million for the six months ended June 30, 2023 and US$2.7 million for the six months ended June 30, 2022. Depreciation and amortisation charged to engineering and product development costs for the six months ended June 30, 2023 was US$7.0 million, an increase of US$0.8 million, or 12.9%, from US$6.2 million for the six months ended June 30, 2022.

The Group's aggregate investment in engineering and product development costs is defined as the sum of costs charged to the condensed consolidated interim income statement (excluding impairment charges associated with costs capitalised in previous 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 currently in development. For the six months ended June 30, 2023, the Group incurred an aggregate investment in engineering and product development costs of US$150.7 million, an increase of US$14.1 million, or 10.3%, compared with US$136.6 million for the six months ended June 30, 2022.

Selling, Distribution and General and Administrative Expenses

The Group's selling, distribution and general and administrative expenses for the six months ended June 30, 2023 were US$77.3 million, representing 3.7% of revenue, a decrease of US$2.7 million, or 3.4%, as compared to US$80.0 million, or 4.5% of revenue for the six months ended June 30, 2022. The decrease in selling, distribution and general and administrative expense was attributable to lower costs related to US employee health and welfare benefit plans and reduced costs related to stock based compensation and long-term incentives for executives, due to plan targets not being met. Depreciation and amortisation charged to administrative expenses for the six months ended June 30, 2023 was US$4.3 million, a decrease of US$0.4 million, or 8.5% from US$4.7 million for the six months ended June 30, 2022.

Other Gains, net

Other gains, net represents gains/losses attributable to foreign exchange transactions, loss/gain on disposal of property, plant and equipment and others. Other gains, net for the six months ended June 30, 2023 was a gain of US$1.3 million, a decrease of US$11.2 million compared to a gain of US$12.5 million for the six months ended June 30, 2022. The decrease was principally attributable to unfavourable foreign exchange compared to significant foreign exchange gains the same period of the prior year.

Finance Income/Finance Costs

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 six months ended June 30, 2023 were US$0.9 million, compared to net finance income of US$0.4 million for the six months ended June 30, 2022. The increase in finance costs was primarily due to fluctuation in short term borrowings for the six months ended June 30, 2023, when compared to same period of 2022.

Share of Results of Joint Ventures, net

Share of results of joint ventures, net relates to the Group's investments in Chongqing Nexteer Steering Systems Co., Ltd. (**Chongqing Nexteer**), Dongfeng Nexteer Steering Systems (Wuhan) Co., Ltd. (**Dongfeng Nexteer**), and CNXMotion, LLC (**CNXMotion**). For the six months ended June 30, 2023, the Group's share of income (loss) in joint ventures amounted to US$1.9 million, (US$0.2 million) and (US$1.8 million) related to Chongqing Nexteer, Dongfeng Nexteer, and CNXMotion, respectively (six months ended June 30, 2022: US$1.4 million, (US$1.5 million), and (US$1.6 million)). Chongqing Nexteer's profitability increased during the six months ended June 30, 2023 compared with the same period in 2022 as a result of increased customer demand. CNXMotion was a R&D entity focused on integrating lateral and longitudinal controls for mixed mode and AD applications. The Group, together with its joint venture partner, made the decision to dissolve the entity. The dissolution is expected to be complete during the second half of 2023. Dongfeng Nexteer was dissolved during the six months ended June 30, 2023.

Income Tax Expense

The Group's income tax expense was US$8.4 million for the six months ended June 30, 2023, representing 18.3% of the Group's profit before tax, a decrease of US$21.1 million from US$29.5 million, or 142.3% of profit before income tax, for the six months ended June 30, 2022.

During the six months ended June 30, 2023 and June 30, 2022, the Group determined that its US net deferred tax assets, mainly R&D credits, were not probable to be fully realised and recorded a decrease in the net deferred tax assets. Consistent with this determination, the Group has not recorded a tax benefit for credits and certain other deferred tax assets of US$23.2 million and US$49.4 million for the six months ended June 30, 2023 and June 30, 2022, respectively.

During the six months ended June 30, 2023, the Group determined that its Brazil net operating losses are more likely than not to be realised due to cumulative income in recent years and other positive evidence. These net operating losses have no expiration and remain available to offset future income tax liabilities. As a result, the Group recognised net deferred tax assets of US$11.0 million for the six months ended June 30, 2023.

Provisions

As at June 30, 2023, the Group has provisions for litigation, environmental liabilities, warranties and decommissioning of US$86.8 million, a decrease of US$6.9 million as compared to US$93.7 million as at December 31, 2022. The decrease in provisions was principally due to the net change in warranty reserves reflecting US$11.8 million in cash payments on historical warranty provisions, mainly offset by net additions of US$4.8 million during the first half of 2023.

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. We believe that cash on hand and availability of borrowings under the Group's credit facilities will be adequate to fund our operations.

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

	For the six months ended June 30, 2023 *US$'000* **(Unaudited)**	For the six months ended June 30, 2022 *US$'000* (Unaudited)
Cash generated from (used in):		
Operating activities	**231,191**	122,498
Investing activities	**(171,316)**	(129,271)
Financing activities	**(13,857)**	14,590
Net increase in cash and cash equivalents	**46,018**	7,817

Cash Flows Generated from Operating Activities

For the six months ended June 30, 2023, the Group's net cash generated from operating activities was US$231.2 million, an increase of US$108.7 million compared with US$122.5 million for the six months ended June 30, 2022. The increase in cash flows from operating activities was primarily attributable to increased earnings, favourable net working capital and a decrease in cash taxes paid driven by a US$35.0 million US tax refund for the six months ended June 30, 2023 compared with 2022.

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.

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

	For the six months ended June 30, 2023 *US$'000* **(Unaudited)**	For the six months ended June 30, 2022 *US$'000* (Unaudited)
Purchase of property, plant and equipment	**(98,669)**	(55,902)
Addition of intangible assets	**(78,184)**	(73,598)
Others	**5,537**	229
Net cash used in investing activities	**(171,316)**	(129,271)

Cash Flows (Used in) Generated from Financing Activities

For the six months ended June 30, 2023, the Group's net cash (used in) generated from financing activities was (US$13.9 million), a decrease of US$28.5 million compared with a cash generation of US$14.6 million for the same period in 2022. The cash flows used in financing activities were mainly attributable to the net repayments of borrowings of US$2.0 million, repayments of lease liabilities of US$7.2 million and finance costs paid of US$4.7 million. The principal driver of the unfavourability in net cash generated from financing activities was the net borrowings during the period, specifically the new term loans in China during the first half of 2022, with no new borrowings in the first half of 2023.

Indebtedness

As at June 30, 2023, the Group's total borrowings was US$47.9 million, a decrease of US$1.9 million from US$49.8 million as at December 31, 2022. The decrease was primarily due to foreign currency impact on term loan borrowings in China which are denominated in RMB.

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

	As at June 30, 2023 *US$'000* **(Unaudited)**	As at December 31, 2022 *US$'000* (Audited)
Non-current borrowings	**47,897**	49,838
Total borrowings	**47,897**	49,838

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

	As at June 30, 2023 *US$'000* **(Unaudited)**	As at December 31, 2022 *US$'000* (Audited)
Between 1 and 2 years	**47,897**	14,112
Between 2 and 5 years	**–**	35,726
Total borrowings	**47,897**	49,838

Pledge of Assets

The Group has several secured borrowings at certain subsidiaries. Assets securing the borrowings differ by site and include accounts receivable, inventories and property, plant and equipment. As at June 30, 2023, the Group had approximately US$868.9 million total assets pledged as collateral, an increase of US$17.7 million as compared with US$851.2 million as at December 31, 2022. The increase in collateral pledged was directly related to increases in the balances of the underlying assets pledged. No significant changes in collateral arrangements have occurred from December 31, 2022 to June 30, 2023.

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 its 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 period.

The gearing ratio as at June 30, 2023 was 2.4%, a decrease of 10 basis points as compared to 2.5% as at December 31, 2022.

OTHER INFORMATION

Future Prospects

The Group strives to maintain a market-leading position in global advanced steering and driveline systems, including electrification, driver assist and ADAS-enabling technologies. We boost our current position and future prospects by leveraging the following five Nexteer differentiators:

1. Relentless innovation

2. Depth and breadth of our product portfolio

3. Systems integration experience

4. In-house ownership of R&D and integrated product and process development

5. Global manufacturing footprint and prowess

Megatrends influencing the automotive industry and adjacent sectors continue to present new and unique channels for Nexteer. We retain thoughtful alignment across our product lines with megatrends including ADAS – Advanced Safety & Performance, Software & Connectivity, Electrification and Shared Mobility. In many cases, our technologies create a natural fit for Nexteer to offer solutions to OEMs across these megatrends, which provides us a competitive advantage and positions us well for potential future opportunities as these megatrends continue to evolve and mature.

Employees Remuneration Policy

As at June 30, 2023, the Group had approximately 13,000 full-time employees. The Group's remuneration policies are formulated based on the performance of individual employees and the Group'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 the shareholders of the Company (the **Shareholders**) as a whole. For example, the Group has employee 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 requirement and contractual obligations.

The Group also uses contract personnel to support the workload of the business where considered the most efficient. As at June 30, 2023, the Group had approximately 1,600 personnel engaged on a contract basis.

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 (the **Hong Kong CG Code**) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **Listing Rules**).

Except as expressly described below, in the opinion of the directors (the **Directors**) of the board of the Company (the **Board**), 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 six months ended June 30, 2023.

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

Pursuant to code provision C.2.1 in Part 2 of Appendix 14 to the Listing Rules, the roles of chairman and the chief executive should be segregate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. With effect from June 21, 2022, Mr. LEI, Zili (**Mr. LEI**), the Chairman of the Board (the **Chairman**), has been appointed as the Chief Executive Officer of the Company, which constitutes a deviation from code provision C.2.1 in Part 2 of Appendix 14 to the Listing Rules. The Board considers that the appointment of Mr. LEI as both chairman and chief executive can provide the Group with consistent leadership going forward and allow more effective implementation of the overall strategy of the Group. Furthermore, this structure does not compromise the balance of power and authority, as major decisions are made in consultation with the Board. The current senior management team of the Group also possesses rich knowledge and experience in different professional fields to assist Mr. LEI to make decisions about the businesses and operations of the Group.

The Chairman is responsible for providing leadership to, and overseeing the functioning of, the Board to ensure that it acts in the best interests of the Group and that Board meetings are planned and conducted effectively. The Chairman is responsible for setting the agenda for each Board meeting, taking into account, where appropriate, matters proposed by the Directors and the Company Secretary. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and provided with adequate and accurate information in a timely manner. The Chairman promotes a culture of openness and actively encourages Directors to voice their opinion and be fully engaged in the Board's affairs so as to contribute to the Board's effective functioning. The Board, under the leadership of the Chairman, has adopted sound corporate governance practices and procedures and has taken appropriate steps to provide effective communication with Shareholders and other stakeholders.

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 six months ended June 30, 2023.

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.

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.

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended June 30, 2023.

AUDIT AND COMPLIANCE COMMITTEE AND REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The Audit and Compliance Committee had reviewed together with management and the external auditor the unaudited Condensed Financial Information of the Company for the six months ended June 30, 2023. There has been no disagreement between the Audit and Compliance Committee or the auditor with the accounting treatment adopted by the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES BY THE COMPANY

There was no purchase, sale or redemption of any listed securities of the Company by the Company or any of its subsidiaries during the six months ended June 30, 2023.

FORWARD-LOOKING STATEMENTS

Any forward-looking statements and opinions contained within this announcement 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 announcement; 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.

By order of the Board
Nexteer Automotive Group Limited
Zili LEI
Chairman and Chief Executive Officer

Hong Kong, August 16, 2023

As of the date of this announcement, the Company's Executive Directors are Mr. Zili LEI (Chairman and Chief Executive Officer) and Mr. Robin Zane MILAVEC, the non-Executive Directors are Mr. Jian WANG, Ms. Wendong ZHANG and Mr. Shiming SHI, and the Independent non-Executive Directors are Mr. Jianjun LIU, Dr. Bin WANG and Mr. Yun YUE.