Edgar Submission

- Flags>
- Submission Type>**20-F**
- Contact>
  - Name>**R.R. Donnelley Financial**
  - Phone Number>**852-2522-3803**
- Filer>
  - Filer Id>**0001506756**
  - Filer Ccc>**xxxxxxxx**
- Sros>
  - Sro Id>**NYSE**
- Period Of Report>**12-31-2016**
- Shell Company Flag>**false**
- Voluntary Filer Flag>**false**
- Well Known Seasoned Issuer Flag>**false**
- Accelerated Filer Status>**Non-Accelerated Filer**
- Notifications>
  - Internet Notification Address>**Hongkong@rrdfsg.com**
- Documents>
  - Document>
    - Conformed Document Type>**20-F**
    - Description>**Form 20-F**
  - Document>
    - Conformed Document Type>**EX-8.1**
    - Description>**EX-8.1**
  - Document>
    - Conformed Document Type>**EX-12.1**
    - Description>**EX-12.1**
  - Document>
    - Conformed Document Type>**EX-12.2**
    - Description>**EX-12.2**
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    - Conformed Document Type>**EX-13.2**
    - Description>**EX-13.2**
  - Document>
    - Conformed Document Type>**EX-15.1**
    - Description>**EX-15.1**

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

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# FORM 20-F

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**(Mark One)**

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2016**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from __________ to __________**

**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report __________**

**Commission file number: 001-35154**

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# CHINA ZENIX AUTO INTERNATIONAL LIMITED
**(Exact Name of Registrant as Specified in Its Charter)**

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**N/A**
**(Translation of Registrant's Name Into English)**

**British Virgin Islands**
**(Jurisdiction of Incorporation or Organization)**

**No. 1608, North Circle Road State Highway**
**Zhangzhou, Fujian Province 363000**
**People's Republic of China**
**(Address of Principal Executive Offices)**

**Martin Cheung**
**No. 1608, North Circle Road State Highway**
**Zhangzhou, Fujian Province 363000**
**People's Republic of China**
**Phone (86) 596-2600308**
**Facsimile (86) 596-2600558**
**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

**American Depositary Shares, each representing four ordinary shares, par value US$0.0001 per share,**
**New York Stock Exchange**
**(Title of Each Class and Name of Each Exchange on Which Registered)**

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**NONE**
**(Title of Class)**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**NONE**
**(Title of Class)**

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

206,500,000 ordinary shares, par value US$0.0001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15)(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ |
| Non-accelerated filer ☒ | Emerging growth company ☐ |

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

| | | |
|---|---|---|
| U.S. GAAP ☐ | International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ | Other ☐ |

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: ☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ☐ Yes ☐ No

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# INTRODUCTION

**Conventions Used in this Annual Report**

Unless otherwise indicated, references in this annual report on Form 20-F, or annual report, to:

- “ADRs” are to the American depositary receipts, which evidence our ADSs;
- “ADSs” are to our American depositary shares, each of which represents four ordinary shares;
- “aftermarket” are to the market for sales and replacement of commercial vehicle wheels after the sale of a commercial vehicle by an OEM;
- “China” or “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;
- “commercial vehicles” are to heavy-duty, medium-duty, light-duty and mini trucks, large, medium and small buses and off-road vehicles;
- “commercial vehicle wheels” are to steel and/or aluminum wheels for use in commercial vehicles;
- “distributors” are to our tier-one and tier-two distributors;
- “Hong Kong” are to the Hong Kong Special Administrative Region of the PRC;
- “international sales” are to our sales to distributors located outside the PRC who then resell our products to OEMs and retail stores, repair and maintenance shops or end-users in the aftermarket, and directly to OEMs outside the PRC;
- “OEMs” are to original equipment manufacturers;
- “off-road steel wheels” are to steel wheels typically used for construction and other types of off-road vehicles;
- “off-road vehicles” are to loaders, forklifts, wheel excavators, wheel bulldozers, land levelers and road rollers;
- “ordinary shares” or “shares” are to our ordinary shares, par value US$0.0001 per share;
- “PRC aftermarket sales” are to our sales to tier-one distributors who then resell through tier-two distributors our products which are ultimately purchased by end-users in the aftermarket in the PRC;
- “PRC OEM sales” are to our sales to OEMs in the PRC;
- “RMB” or “Renminbi” are to the legal currency of the PRC;
- “SEC” are to the Securities and Exchange Commission;
- “steel wheels” are to steel wheels used primarily in commercial vehicles;
- “tier-one distributors” are to our tier-one distributors, with whom we have direct contractual relationships, and which exclusively resell our products to tier-two distributors;
- “tier-two distributors” are to our tier-two distributors, retail stores and repair and maintenance shops, which can be divided into exclusive and non-exclusive tier-two distributors;
- “tubed steel wheels” are to steel wheels which are typically used for commercial vehicles using tires that contain a rubber inner tube;
- “tubeless steel wheels” are to steel wheels which are typically used for commercial vehicles using tubeless tires;
- “United States” or “U.S.” are to the United States of America;
- “US$” or “U.S. dollars” are to the legal currency of the United States; and
- “China Zenix,” “we,” “us,” “our,” “our company” and “our group” are to China Zenix Auto International Limited and, unless otherwise indicated or as the context may otherwise require, our predecessor, Zhengxing Wheel Group Co., Ltd., or Zhengxing Wheel (initially named Fujian Zhengxing Wheel Co., Ltd.), and our consolidated entities.

Unless otherwise indicated, our historical number of shares and per share data contained in this annual report have been restated to give retroactive effect to the change in authorized and issued share capital and repurchase of our issued and outstanding shares which became effective on February 21, 2011.

**Special Note Regarding Forward-Looking Statements**

This annual report contains forward-looking statements that relate to our current expectations and views of future events. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under Item 3D "Key Information—Risk Factors," which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. You should not place undue reliance on these forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as "aim," "anticipate," "believe," "consider,""continue," "estimate," "expect," "forecast", "going forward," "intend," "ought to," "plan," "potential," "predict", "project," "propose," "seek," "can," "could," "may," "might," "will," "would," "shall," "should," "is / are likely to," and the negative forms of these words or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- the trends, risks, challenges and uncertainties in the automotive industry and commercial vehicle wheel industry and for our business generally;
- our beliefs regarding our strengths and strategies;
- our current expansion strategy;
- market acceptance of our products;
- our ability to develop and successfully market new products, including aluminum wheel products;
- our ability to stay abreast of market trends and technological advances;
- competition in the commercial vehicle wheel industry;
- our ability to maintain strong working relationships with our distributors and OEM customers;
- our ability to comply with all relevant environmental, health and safety laws and regulations;
- our future prospects, business development, financial condition and results of operations;
- PRC governmental policies and regulations relating to the automotive industry and commercial vehicle wheel industry;
- fluctuations in general economic and business conditions in the PRC and international markets; and
- other matters described in this annual report that are not historical facts.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events, unless we are required by applicable securities laws and rules to do so. You should read this annual report and the documents that we reference in this annual report and have filed as exhibits to this annual report with the understanding that our actual future results may be materially different from what we expect.

# PART I

## Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

## Item 2. Offer Statistics and Expected Timetable

Not applicable.

## Item 3. Key Information

### A. Selected Financial Data

The following selected consolidated statements of profit or loss and other comprehensive income data for the years ended December 31, 2014, 2015 and 2016 and the selected consolidated statements of financial position data as of December 31, 2015 and 2016 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The following selected consolidated statements of profit or loss and other comprehensive income data for the years ended December 31, 2012 and 2013, and the selected consolidated statements of financial position data as of December 31, 2012, 2013 and 2014 have been derived from our audited consolidated financial statements not included in this annual report. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

You should read the selected consolidated financial data in conjunction with our consolidated financial statements and the related notes and Item 5 "Operating and Financial Review and Prospects." Our historical results are not necessarily indicative of our results expected for any future periods.

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2016 |
| | RMB | RMB | RMB | RMB | RMB | US$ |
| | (in thousands, except per share date) | | | | | |
| **Selected Consolidated Statements of Profit or Loss and Other Comprehensive Income Data:** | | | | | | |
| Revenue | 3,737,965 | 3,802,308 | 3,334,355 | 2,445,756 | 2,249,533 | 324,000 |
| Cost of sales | (2,795,548) | (3,011,615) | (2,744,896) | (2,081,976) | (1,862,017) | (268,186) |
| Gross profit | 942,417 | 790,693 | 589,459 | 363,780 | 387,516 | 55,814 |
| Other income, gain and loss | 17,066 | 27,300 | 25,781 | 16,410 | 11,680 | 1,682 |
| Net exchange (loss) gain | 922 | (7,438) | 1,664 | 5,793 | 2,546 | 367 |
| Selling and distribution costs | (252,109) | (274,825) | (253,846) | (212,273) | (181,911) | (26,201) |
| Research and development expenses | (90,823) | (91,632) | (98,040) | (51,253) | (84,639) | (12,191) |
| Administrative expenses | (138,040) | (142,495) | (149,481) | (136,681) | (139,377) | (20,074) |
| Finance costs | (50,916) | (26,003) | (17,606) | (15,913) | (21,387) | (3,080) |
| Profit (loss) before taxation | 428,517 | 275,600 | 97,931 | (30,137) | (25,572) | (3,683) |
| Income tax (expense) credit | (66,885) | (42,947) | (18,704) | 1,570 | (352) | (51) |
| **Profit (loss) and total comprehensive income (loss) for the year** | 361,632 | 232,653 | 79,227 | (28,567) | (25,924) | (3,734) |
| **Profit (loss) and total comprehensive income (loss) attributable to:** | | | | | | |
| Owners of the Company | 361,632 | 232,653 | 79,227 | (28,567) | (25,924) | (3,734) |
| Earnings (loss) per share | | | | | | |
| Basic | RMB 1.75 | RMB 1.13 | RMB 0.38 | RMB (0.14) | RMB (0.13) | US$ (0.02) |
| Diluted | RMB 1.75 | RMB 1.13 | RMB 0.38 | RMB (0.14) | RMB (0.13) | US$ (0.02) |
| Earnings (loss) per ADS | | | | | | |
| Basic | RMB 7.00 | RMB 4.51 | RMB 1.53 | RMB (0.55) | RMB (0.50) | US$ (0.07) |
| Diluted | RMB 7.00 | RMB 4.51 | RMB 1.53 | RMB (0.55) | RMB (0.50) | US$ (0.07) |
| Dividend declared and paid per share | 0.09 | — | — | — | — | — |

| | 2012 RMB | 2013 RMB | 2014 RMB | 2015 RMB | 2016 RMB | 2016 US$ |
|---|---|---|---|---|---|---|
| | (in thousands, except per share date) | | | | | |
| **Selected Consolidated Statements of Financial Position Data:** | | | | | | |
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Inventories | 364,351 | 394,758 | 382,067 | 181,905 | 138,740 | 19,983 |
| Trade and other receivables and prepayments | 813,445 | 971,806 | 921,653 | 613,418 | 695,856 | 100,224 |
| Prepaid lease payments | 9,425 | 9,425 | 9,425 | 9,425 | 9,425 | 1,357 |
| Pledged bank deposits | 70,884 | 76,600 | 59,100 | 28,200 | 32,100 | 4,623 |
| Fixed bank deposits with maturity period over three months | 160,000 | 160,000 | 260,000 | 260,000 | 290,000 | 41,769 |
| Bank balances and cash | 827,271 | 748,744 | 556,990 | 817,247 | 896,799 | 129,166 |
| Total current assets | 2,245,376 | 2,361,333 | 2,189,235 | 1,910,195 | 2,062,920 | 297,122 |
| Non-current assets | | | | | | |
| Property, plant and equipment | 1,405,544 | 1,494,848 | 1,525,567 | 1,506,318 | 1,379,287 | 198,659 |
| Prepaid lease payments | 414,149 | 404,724 | 395,299 | 385,874 | 376,449 | 54,220 |
| Deposits paid for acquisition of property, plant and equipment | 55,198 | 21,540 | 1,590 | — | — | — |
| Deferred tax assets | 4,629 | 4,365 | 4,356 | 15,958 | 23,836 | 3,433 |
| Intangible assets | 17,000 | 17,000 | 17,000 | 17,000 | 17,000 | 2,449 |
| Total non-current assets | 1,896,520 | 1,942,477 | 1,943,812 | 1,925,150 | 1,796,572 | 258,761 |
| Total assets | 4,141,896 | 4,303,810 | 4,133,047 | 3,835,345 | 3,859,492 | 555,883 |
| EQUITY AND LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Trade and other payables and accruals | 1,060,095 | 1,132,172 | 938,251 | 606,922 | 668,633 | 96,302 |
| Amount due to a shareholder | — | — | 5,507 | 11,679 | 1,398 | 201 |
| Taxation payable | 10,594 | 10,977 | 1,063 | 674 | 109 | 16 |
| Short-term bank borrowings | 700,000 | 558,000 | 508,000 | 558,000 | 558,000 | 80,369 |
| Total current liabilities | 1,770,689 | 1,701,149 | 1,452,821 | 1,177,275 | 1,228,140 | 176,888 |
| Non-current liabilities | | | | | | |
| Deferred income | 11,681 | 10,885 | 10,088 | 9,292 | 8,496 | 1,224 |
| Deferred tax liabilities | 79,827 | 78,942 | 78,077 | 85,284 | 85,286 | 12,284 |
| Total non-current liabilities | 91,508 | 89,827 | 88,165 | 94,576 | 93,782 | 13,508 |
| Total liabilities | 1,862,197 | 1,790,976 | 1,540,986 | 1,271,851 | 1,321,922 | 190,396 |
| EQUITY | | | | | | |
| Share capital (US$0.0001 par value, 500,000,000 shares authorized, 206,500,000 shares issued and outstanding as of December 31, 2015 and 2016) | 136 | 136 | 136 | 136 | 136 | 20 |
| Additional paid in capital | 391,711 | 392,076 | 392,076 | 392,076 | 392,076 | 56,471 |
| Reserves | 1,887,852 | 2,120,622 | 2,199,849 | 2,171,282 | 2,145,358 | 308,996 |
| Total equity attributable to owners of the Company | 2,279,699 | 2,512,834 | 2,592,061 | 2,563,494 | 2,537,570 | 365,487 |
| Total equity and liabilities | 4,141,896 | 4,303,810 | 4,133,047 | 3,835,345 | 3,859,492 | 555,883 |

## Exchange Rate Information

Our business is primarily conducted in the PRC, and most of our revenue is denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for your convenience. Unless otherwise noted, all translations from Renminbi amounts to U.S. dollar amounts in this annual report were made at the rate of RMB6.9430 to US$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2016.

| | Noon Buying Rate | | | |
|---|---|---|---|---|
| | Period End | Average (1) | Low | High |
| | (RMB per US$1.00) | | | |
| 2011 | 6.2939 | 6.4475 | 6.6364 | 6.2939 |
| 2012 | 6.2301 | 6.2990 | 6.3879 | 6.2221 |
| 2013 | 6.0537 | 6.1478 | 6.0537 | 6.2438 |
| 2014 | 6.2046 | 6.1704 | 6.0402 | 6,2591 |
| 2015 | 6.4778 | 6.2827 | 6.1870 | 6.4896 |
| 2016 | 6.9430 | 6.6631 | 6.4480 | 6.9580 |
| October | 6.7735 | 6.7303 | 6.6685 | 6.7819 |
| November | 6.8837 | 6.8402 | 6.7534 | 6.9195 |
| December | 6.9430 | 6.9197 | 6.8771 | 6.9580 |
| 2017 | | | | |
| January | 6.8768 | 6.8907 | 6.8360 | 6.9575 |
| February | 6.8665 | 6.8694 | 6.8517 | 6.8821 |
| March | 6.8832 | 6.8940 | 6.8687 | 6.9132 |
| April (through April 27, 2017) | 6.8845 | 6.8871 | 6.8778 | 6.8988 |

*Source: The exchange rate refers to the noon buying rate as set forth in the weekly H.10 statistical release of the Federal Reserve Board.*

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or the Renminbi, as the case may be, at any particular rate or at all.

### B. Capitalization and Indebtedness

Not applicable.

### C. Reasons for the Offer and Use of Proceeds

Not applicable.

### D. Risk Factors

#### Risks Relating to Our Business and Industry

***Our operations are affected by the economic conditions of the overall automotive market, both in the PRC and in other countries, which in turn are subject to the conditions of the overall economic environment, government policies and other factors beyond our control.***

As our products, steel and aluminum wheels, are components of commercial vehicles, our sales are largely dependent on the demand for and usage of such vehicles in the overall automotive market, both in the PRC and in other countries where our products are sold. We sell steel and aluminum wheels both through a network of distributors to aftermarket end-users as replacements for worn out or lower quality wheels, and directly to OEMs such as automotive manufacturers for use on their commercial vehicles. The demand from both of these types of customers depends on the overall demand for and usage of commercial vehicles, which in turn depends on a number of factors including overall economic conditions, vehicle sales and availability and quality of transportation networks in the markets where we sell and distribute our products. All of these factors are beyond our control.

As the PRC economy developed, domestic commercial vehicle sales enjoyed a relatively long period of growth, which helped drive the domestic sales of our products. Domestic commercial vehicle sales, however, have decreased since 2011 primarily due to the prolonged slowdown in the global economy as well as PRC government policies including control over capital investment and cancellation of the government stimulus measures implemented to assist the automotive industry in 2009 and 2010. As a result, the rate of growth of our PRC aftermarket and OEM sales decreased since 2011 and more significantly in 2012. In 2013, our PRC aftermarket and OEM sales, however, increased slightly compared to 2012, primarily due to the gradual recovery of the global economy as well as an increase in domestic commercial vehicle sales in 2013 in anticipation of the promulgation of a policy that would substantially increase the prices of automotives. In the second half of 2014, a slowdown in the PRC economy resulted in a reduction of construction and infrastructure related activities, which led to a sluggish demand in our aftermarket segment. In the second half of 2014, our OEM sales also decreased as truck manufacturers cut back on new vehicle production in light of the looming switch from the National III to the National IV emission standard and corresponding need to decrease inventory of National III compliant vehicles prior to launching National IV compliant vehicles. In 2015, the PRC economy again slowed down significantly. The lowest rate of increase in the last 15 years in construction and infrastructure related activities led to a significant decline in truck sales, especially in the medium- and heavy-duty truck sectors. A lack of investment in infrastructure and real estate projects compared to previous trends also led to a continued weakness in our aftermarket segment. In 2016, truck sales and steel rim sales rebounded slightly. However, as steel prices continued to drop, selling prices for our products was still slightly lower compared to last year. Furthermore, with a record low national GDP of 6.7%, the PRC economic slowdown led us to experience sluggish aftermarket sales and a decrease in sales volume and prices in 2016.

Outside of the PRC, our international sales have been affected by the recent global financial crisis that began in the second half of 2008, as some of the countries to which we export our products experienced an economic slowdown, and the demand in the international automotive market reduced significantly between 2008 and 2009. Despite the ongoing economic difficulties in various markets, including India, our international sales improved from 2011 to 2012 as a result of our enhanced sales and marketing efforts in various countries in Asia. However, notwithstanding the growth of our sales in various countries in Asia, our international sales as a whole decreased from 2012 to 2013, primarily due to an increase in the anti-dumping duties imposed by the Indian government, which has resulted in a substantial decrease in our sales to the Indian market. From 2013 to 2014, the depreciation of Indian rupee also adversely affected the Indian economy. As a result, we nearly ceased our sales to the Indian market. On the other hand, we have also gained new headway in the Southeast Asian market, particularly with respect to Thailand. In early 2015, our international sales decreased due to lower selling prices despite stable unit sales as a result of the Renminbi depreciation and competitive pricing. In the second half of 2015, currency depreciation in Southeastern Asian countries, including Thailand, Indonesia and Myanmar, also weakened the demand from these markets. In 2016, the global economic downturn and market turmoil, compounded by the slowdown of economic development in Southeast Asian countries and intense competition in the export market, led to decreases in our international sales and pricing.

In addition, the implementation, renewal, change or cancellation of any government policies in the future, such as economic stimulus or tightening measures or currency controls, in the PRC or in any of the international markets where our products are sold, may significantly affect our business.

If the demand for our steel and aluminum wheels declines as a result of changes of economic conditions in the automotive industry or does not grow at the pace we anticipate, our business, financial condition, results of operations and prospects could be harmed.

***We are reliant on our major customers and currently do not have multi-year contracts with almost all such customers.***

We rely on our major customers. In 2014, 2015 and 2016, the aggregate sales to our five largest customers (including the PRC aftermarket, PRC OEMs and international sales) accounted for 18.8%, 17.8% and 18.0% of our revenue, respectively. For example, Anhui Jianghuai Automobile Group, our largest customer worldwide in 2014, 2015 and 2016 accounted for 5.1%, 4.6% and 5.9% of our revenue for 2014, 2015 and 2016, respectively. We offer our products to end-users in the aftermarket in the PRC through our nationwide distribution network. As of December 31, 2016, such network consisted of 3,799 distributors in the PRC, including 23 tier-one distributors, 2,461 exclusive tier-two distributors and 1,315 non-exclusive tier-two distributors, throughout the PRC. We also sell our products directly to OEMs in the PRC. In addition, we sell our products outside the PRC to both international distributors in the aftermarket and directly to international OEMs, primarily in Thailand and more than 27 other countries worldwide. Although we generally have longstanding business relationships with our major customers, we do not have multi-year contracts with almost all such customers. For our aftermarket customers in the PRC, we sign distribution agreements with our tier-one distributors and three-party distribution agreements with our tier-one distributors and exclusive tier-two distributors. These agreements are automatically renewed every year unless terminated by the parties. We do not, however, enter into any contracts with our non-exclusive tier-two distributors to which the tier-one distributors resell our products. For our OEM customers in the PRC, we typically sign framework agreements that are renewable every year upon mutual agreement. Under these framework agreements, the volume of products to be sold in any given period is not fixed, but the sale price is fixed and then periodically revised based on the market price of steel and mutual agreement between the parties. For our ten largest international customers, we enter into strategic cooperation agreements which are renewable every three years upon mutual agreement unless terminated by the parties and pursuant to which such customers place orders from time to time that specify the actual price and amount of purchases. Our remaining international customers purchase our products pursuant to standalone purchase orders.

We cannot assure you that our future sales to our major customers will equal or exceed our previous sales or will continue to exist at all, because we have no multi-year contracts with such customers guaranteeing minimum sales volumes or prices for future years. As the existing agreements with our customers expire, we may be unable to renew these agreements with our desired customers on favorable terms in a timely manner or at all. As a result, our business, financial condition, results of operations and prospects may be adversely affected.

***We may be required to record a significant charge to earnings if we are required to reassess our tangible and intangible assets.***

We are required under International Financial Reporting Standards to test for impairment on tangible and intangible assets annually or more frequently when events or changes in circumstances indicate the carrying value may not be recoverable. Currently we are losing money, and our tangible and intangible assets may be impaired if the losses continue. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization and slower or declining growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our tangible and intangible assets is determined.

***We may be unable to maintain, renew or develop business relationships with current or future distributors, and our tier-one distributors may be unable to maintain, renew or develop their relationships with tier-two distributors, and any of such factors could lead to a reduction of our revenue or our revenue growth.***

A significant portion of our revenue comes from distributors, on which we exclusively rely to reach the aftermarket in the PRC. We have 25 tier-one distributors in the PRC, with whom we have direct contractual relationships. In turn, these tier-one distributors resell our products to tier-two distributors. Our five largest tier-one distributors accounted for 16.7%, 16.2% and 15.0% of our revenue in 2014, 2015 and 2016, respectively. We believe that we will continue to generate a significant portion of our revenue from sales to our tier-one distributors in the PRC.

As described in the preceding risk factor, we cannot assure you that our business relationships with any of our existing distributors will continue or that any such distributor will continue to purchase our products in the same quantities or at the same prices as in prior years. Furthermore, we expect that we will continue to rely on engaging distributors and expanding volume with existing distributors for our revenue growth. However, competition for distributors in our industry is intense. We compete for distributors with other companies that may have greater financial resources or name recognition in certain markets, broader product selection and more favorable pricing than us. If we lose one or more distributors and are unable to replace them at similar terms in a timely manner or if we fail to develop relationships with new distributors, we may be unable to effectively market and sell our products, which could adversely affect our business, financial condition, results of operations and prospects.

In addition, we cannot be certain that our tier-one distributors will be able to maintain their relationships with tier-two distributors or that such tier-two distributors will be able to effectively sell our products to the ultimate aftermarket end-users. Our tier-one distributors are not the ultimate end-users of our products, and their orders to us depend on downstream sales to tier-two distributors and such distributors' sales to ultimate end-users. Any failure by our tier-one distributors to maintain their relationships with tier-two distributors or by the tier-two distributors to effectively sell our products to end-users could also materially and adversely affect us.

***Failure to effectively manage our network of distributors or any non-compliance by them under our distribution agreements could negatively affect our ability to sell our products or subject us to liability.***

We generally select our tier-one distributors based on business reputation, size, industry and sales experience, quality of the management team and prior sales performance. Under our contractual arrangements, our tier-one distributors may not distribute any other commercial vehicle wheel manufacturer's products, and are required to sell our products at our suggested prices and in designated sales regions.

We have both exclusive and non-exclusive tier-two distributors, both of which purchase our products from our tier-one distributors. Each of our exclusive tier-two distributors is operated by third parties, exclusively sells our products and follows our branding and marketing requirements, pursuant to annually renewable three-party distribution agreements that such exclusive tier-two distributors enter into with us and the relevant tier-one distributor in the designated sales region. Our non-exclusive tier-two distributors sell our products along with products from our competitors.

Our sales and marketing team manages and supports the activities of our tier-one distributors and exclusive tier-two distributors to ensure that they comply with our sales guidelines, policies and procedures. Despite our contractual arrangements and the efforts of our sales and marketing team, we cannot assure you that our tier-one distributors and exclusive tier-two distributors will fully comply with their contractual obligations to us. For example, they may:

- fail to meet sales targets for our products in accordance with relevant agreements;
- sell our products outside their designated regions, possibly in violation of the exclusive distribution rights of our other distributors;
- fail to maintain requisite licenses or otherwise comply with regulatory requirements when selling our products;
- sell products that compete with ours; or
- violate applicable laws, including the anti-corruption laws of the PRC, the United States or other countries, during the course of the marketing and sale of our products.

Furthermore, we generally have no direct contractual relations with our non-exclusive tier-two distributors, all of which are independent from us. Instead, our tier-one distributors directly contract with non-exclusive tier-two distributors to implement certain sales policies and restrictions reflected in the contracts between tier-one distributors and us. We rely on tier-one distributors to enforce these arrangements with non-exclusive tier-two distributors, and we cannot assure you that our tier-one distributors can be successful in doing so. As a result, we have limited ability to manage the activities of our non-exclusive tier-two distributors, and we may not be able to timely mitigate or correct any non-compliance by such distributors with our sales policies and restrictions.

If our distributors do not comply with our agreements with them or if they violate applicable laws or otherwise engage in illegal practices with respect to their sales and marketing of our products, then our brand and reputation may be harmed or our sales activities may be disrupted, and we could also be liable for such actions by our distributors. Therefore, if we are unable to effectively manage our network of distributors, our brand, business, financial condition, results of operations and prospects may be materially and adversely affected.

***We may not be successful in expanding our international sales or operations due to various factors, including political or economic issues such as trade barriers.***

Our products are mainly sold in the PRC, but international sales to Thailand and more than 27 other countries worldwide, both to international distributors and OEMs, are significant, accounting for 15.5%, 17.9% and 16.5% of our revenue in 2014, 2015 and 2016, respectively. As a result, our operations and financial performance are affected by the social, economic, political and regulatory conditions in these countries and countries where we may operate or where our products may be sold in the future. Furthermore, regulations and policies affecting trade and bilateral relations between the PRC and the countries and regions to which we export our products can adversely affect our international sales in those countries and regions.

We intend to expand our international sales, particularly sales in Southeast Asia. However, we may not be successful in expanding our international sales or operations or benefiting from any such expansion, due to the following factors:

- fluctuations in currency foreign exchange rates;
- inability to execute or manage international expansion;
- instability of local political and economic conditions;
- difficulties caused by cultural or language differences;
- inability to timely attract or train sufficient experienced staff and skilled workers, including sales staff knowledgeable in each international market;
- increasing costs and expenses associated with maintaining marketing and sales efforts or establishing other operations outside the PRC;
- difficulty and costs relating to compliance with different commercial and legal requirements of various international markets, including but not limited to any permits, licenses, registrations or certificates that may be required in those markets;
- inability to obtain, maintain or enforce intellectual property rights; and
- trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses (including anti-dumping duties as discussed below), which could increase the prices of our products and make us less competitive in some countries and regions.

In addition, we have faced trade barriers in our international markets. For example, the Indian government initiated proceedings in 2006 to impose anti-dumping duties on Indian companies for importing steel wheel products from the PRC primarily in an attempt to protect local Indian steel wheel manufacturers, which generally do not offer steel wheels at the prices that we and our PRC competitors are able to offer in India. We participated in the relevant investigation and proceedings initiated by the Indian government, which ended in 2007. As a result of our efforts, Indian importers are subject to a lower import tax rate when importing from us compared to some of our PRC competitors. The Indian government initiated similar proceedings in 2012 and increased the anti-dumping duties from 14,710 Indian Rupees per ton in 2012 to 30,700 Indian Rupees per ton in 2013, which has resulted in a substantial decrease in our sales to the Indian market. Because of these duties and a recessive economy that was brought on in part by the depreciation of Indian Rupee, we nearly ceased our sales to the Indian market by 2014. We and our products may from time to time be subject to further import taxes or anti-dumping duties in India and other countries where our products are sold, which could have an adverse impact on the prices and sales of our products in those countries. In addition, responding to any initiation of protection measures against us or our products in our international markets may significantly divert the resources and attention of our management.

If we are unable to successfully expand our international sales or operations, our business, financial condition, results of operations and prospects may be materially and adversely affected.

***We may not be able to prevent potential resales or transfers of our products to countries, governments, entities or persons targeted by United States economic sanctions, especially when we sell our products to independent non-U.S. distributors over which we have limited control.***

The U.S. Department of the Treasury's Office of Foreign Assets Control administers certain laws and regulations, or U.S. Economic Sanctions Laws, that restrict U.S. persons and, under limited circumstances, foreign entities, in conducting activities, transacting business with or making investments in certain countries, governments, entities and individuals that are the subject of U.S. economic sanctions, or Sanctions Targets. U.S. persons are also generally prohibited from facilitating such activities or transactions engaged in by non-U.S. persons.

We sell a portion of our products in international markets through independent non-U.S. distributors that are responsible for interacting with the end-users of our products. Historically, some of our independent non-U.S. distributors were located in countries that were subject to U.S. economic sanctions, namely Myanmar, Iraq, Iran, Lebanon and Syria. In 2010, our aggregate sales to the non-U.S. distributors in those sanctioned countries accounted for less than 2.0% of our revenue in that year. We ceased selling to such non-U.S. distributors in those sanctioned countries in October 2010.

We believe that, under their current terms, U.S. Economic Sanctions Laws are not applicable to our historical activities with respect to the sanctioned countries named above. Nonetheless, we have decided not to engage in any sales to non-U.S. distributors located in any countries that are subject to U.S. economic sanctions and have implemented measures to prevent any future sales of our products to any Sanctions Targets.

Due to our limited control over our independent non-U.S. distributors, however, we may be unable to prevent all potential resales or transfers of our products to Sanctions Targets. We do not always know the end-users to whom our distributors resell our products, and, although we have required our distributors to covenant with us not to resell our products to Sanctions Targets, one or more of our distributors may breach that covenant. If our activities are found to violate applicable sanctions or other trade controls, our reputation could be adversely affected, some of our U.S. investors might be required to sell their interests in our company under the laws of certain U.S. states or under internal investment policies or might decide for reputational reasons to sell such interests, and some U.S. institutional investors might forgo the purchase of our ADSs, all of which could materially and adversely affect the value of our ADSs and your investment in us.

***We rely on a limited number of key suppliers for steel, our key raw material, and certain components required for our production.***

Our principal raw material is steel which accounts for substantially all of our current total raw material requirements. We source steel from a handful of key suppliers in the PRC, with whom we typically enter into annual supply agreements. In addition, we purchase from a limited number of suppliers a majority of our locking rings, a key component used in our production of tubed steel wheels.

We have optimized our manufacturing process by procuring steel that meets our specifications, and we purchase such steel from a handful of established key suppliers. Although there are alternative steel suppliers in the market, any disruption in steel from our key suppliers may disrupt our manufacturing operations until we can secure customized steel from other suppliers at similar pricing and other terms in a timely manner. We cannot assure you we can always be able to secure customized steels from alternative suppliers in a timely manner at commercially acceptable terms, or at all. Furthermore, we cannot assure you that our annual agreements with the relevant suppliers will be renewed on a timely basis, on the same terms as we have previously received or at all. We do not hedge or otherwise fix supply prices in advance by contract, although we typically increase our inventory of steel when prices decline and limit our purchases to the extent possible when steel prices increase. Accordingly, we cannot assure you that we will be able to purchase sufficient quantities of the appropriate types of steel for our various products at the prices we have historically paid. Similarly, we may be unable to obtain adequate supplies of locking rings at or lower than the prices we have historically paid. If any of the above events occur, our business, financial condition, results of operations and prospects could be adversely affected.

***We are subject to risks associated with the volatile prices and availability of raw materials and utilities.***

As stated above, the primary raw material for our production is steel, which is a commodity with frequently fluctuating prices. In addition to steel, utilities, particularly electricity, are another significant input in our manufacturing process.

The prices of raw materials and utilities may fluctuate due to intervening factors such as global demand and supply conditions and changes in economic conditions. Any shortages or interruptions in the supply of raw materials or utilities may result in an increase in raw material or utility prices, and we may not be able to pass on these increases in prices to our customers or we may be unable to find alternative sources of such raw materials or utilities at competitive prices. We cannot assure you that such shortages or interruptions will not occur in the future. Alternatively, if the prices of raw materials decrease significantly, especially in the case of steel, which we typically increase our purchases when prices decline, we may have to reduce the prices we charge for our products to remain competitive. This may require us to write down the value of inventory on hand that we purchased prior to such decrease in prices. If any of these events occurs, our business, financial condition, results of operations and prospects may be adversely affected.

***We operate in a highly competitive industry.***

As we operate in a highly competitive industry, we currently face competition from other manufacturers of steel and aluminum wheels in the PRC. In the PRC market, we primarily compete with companies such as Shandong Xingmin Wheel, Dongfeng Motor Wheel, Changchun FAWAY Automobile Components, Xiamen Sunrise Wheel and Alcoa Inc, Zhejiang Jingu Company Limited In the international market, we primarily compete with various local wheel manufacturers at each of our sales region. Our success depends, among other things, on our ability to maintain and improve our products and production capabilities to meet the needs of our existing and new customers. In particular, there is intense competition for a limited number of OEM customers. If our products do not meet the requirements of our existing and new customers, if our competitors offer better products or more competitive prices for similar products or if our products otherwise fail to compete successfully in the industry, our financial performance may be adversely affected.

In addition, there is increasing consolidation within the commercial vehicle wheel industry in the PRC. If we fail to maintain or increase our market share, this consolidation in our industry could cause our competitors to develop advantages over us in their available capital, per-unit cost in manufacturing operations, purchasing power with suppliers, pricing power with customers, scale of distribution network, brand recognition and other factors that could adversely affect our business, financial condition, results of operations and prospects.

***There are changing demands within the commercial vehicle wheel market, involving shifts in demand from certain types of wheels to others, and our business, financial condition, results of operations and prospects may be materially and adversely affected if we fail to meet such changing market demands.***

The market for commercial vehicle wheels is constantly evolving, with demand for different types of wheels shifting over time. For example, it is anticipated that tubeless steel wheels will gradually displace demand for tubed steel wheels and that there will be a shift from steel wheels to aluminum wheels. These particular trends are driven by a desire for wheels that provide greater safety and/or fuel efficiency. Successfully meeting the changing market demands will be critical for us to remain competitive in the industry.

These and other market changes may alter the demand for certain of our existing and planned products. We anticipate incurring significant costs to appropriately accommodate such changing market trends. For example, we developed a new type of energy-saving and environmentally friendly "Tulou Steel wheel" wheel and aluminum wheel for various types of vehicles such as high-end minibuses, and devoted substantial efforts toward the promotion of these products, including cooperating with large logistics companies in the PRC to allow their customers to test-install and try out our light-weight wheels. We have devoted significant financial and other resources to these activities and expect to incur additional costs in the future. Furthermore, we may not be successful in keeping up with or foreseeing the changing demands in the market, and we may not otherwise realize the full benefit of our investments made in anticipation of any particular market trend. Although we are actively engaging in research and development activities to keep up with changing market demands, we cannot assure you that we will successfully meet future market demands. Any of these factors could adversely affect our business, financial condition, results of operations and prospects.

***Our product development efforts may not result in successful new products that meet changing market demands. In particular, our plans to launch new aluminum wheel products may not be successful.***

In order to maintain and enhance our leading competitive position and to continue to grow our business, we work to further optimize our manufacturing processes and to design, develop and market new products and improved versions of our existing products to meet changing market demands. In particular, we are conducting research and development for the production of aluminum wheels for use in commercial vehicles in anticipation of changing market demands.

Accordingly, we expect our research and development expenses to continue to increase for the foreseeable future as we continue to develop new and enhanced steel wheels and as we further enhance our research and development for aluminum wheels. However, as a percentage of revenue, we expect our research and development expenses to remain relatively stable for the foreseeable future. Further, research and development activities are inherently uncertain, and the success of our new products will depend on a number of factors, including product quality, competition, customer acceptance, price, general market conditions, government policies, our ability to reflect customer feedback into our new products, our ability to accurately assess technological trends and customer needs and the strength of our marketing and distribution capabilities.

We have limited experience in designing and producing aluminum wheels on a commercial scale. Entering the aluminum wheel market may be a challenge for us, since the production of aluminum wheels differs from that of our existing steel wheel products. For example, aluminum wheels require certain manufacturing equipment and techniques different from those used for steel wheels. Therefore, we may not be successful in the aluminum wheel market. Our competitors may be able to introduce aluminum wheels to markets faster than us, adopt more efficient manufacturing techniques or develop products that are more effective or commercially attractive than ours. If we fail to succeed in the aluminum wheel market, our business, financial condition, results of operations and prospects may be materially and adversely affected.

***We may not successfully expand or manage our production capacity.***

Our future success depends on, among other things, our ability to maintain optimal production capacity and to maximize the utilization rate of our production capacity. If we fail to achieve either, we may be unable to benefit from economies of scale to decrease our cost per wheel, apply capital efficiently, improve our profitability, maintain our leading competitive position in the commercial vehicle wheel industry or meet customer needs.

We have undergone a series of expansions to our existing manufacturing facilities in recent years, including in 2010, 2011 and the first half of 2012. While we temporarily suspended such expansion in the second half of 2012 and continued to suspend such expansion in 2013 primarily due to a decrease in our PRC aftermarket and OEM sales, we intend to resume our expansion plan and further steadily expand our manufacturing facilities in the long-term depending on market conditions. In addition, we are in the process of ramping up a new aluminum wheel manufacturing facility, for which we purchased the principal equipment and trained a number of technicians during 2014 and began commercial production in the third quarter of 2015. As of December 31, 2016, our manufacturing facilities had a designed annual production capacity of approximately 15.5million units of steel and aluminum wheels, of which 9.5 million units were tubed steel wheels, 5.5 million units were tubeless steel wheels, 33,600 units were off-road steel wheels and 0.5 million units were aluminum wheels.

Although we have significantly expanded our production capacity and are planning to steadily expand our manufacturing facilities further in the long-term depending on market conditions, it is possible that demand for our products may exceed our production capacity in future periods, in which case we may be required to further expand our production capacity to maintain or increase our market share. However, such future expansion is subject to significant risks and uncertainties, including:

- the need to raise significant additional funds to purchase additional production equipment or to build additional factories, which we may be unable to obtain on commercially viable terms or at all;
- cost overruns and delays as a result of a number of factors, many of which are beyond our control, such as increased costs associated with equipment procurement;
- delays or denial of required approvals by relevant government authorities;
- failures to obtain adequate land or buildings that are suitable for our manufacturing facilities and within geographic proximity to regions with demand for our products or with adequate shipping facilities, utilities and labor pools;
- production inefficiency or inadequate quality control from new or expanded manufacturing facilities;
- inability to quickly implement an adequate set of financial controls to track the increased scale of our business;
- inability to attract, retain or appropriately train and manage new personnel; and
- delays in commencing operations at our new or expanded facilities.

After any expansion of production capacity, the utilization rate of our expanded production capacity is subject to various factors, many of which are beyond our control, including: an inability to increase our sales volume due to market conditions, unanticipated disruptions in our operations which may impact our ability to manufacture products or make timely deliveries to our customers and inadequate access to raw materials, labor or other inputs required for our manufacturing operations. As a result, we cannot assure you that we will always be able to adequately utilize our production capacity at any given time.

If we fail to appropriately expand and manage our production capacity, our business, financial condition, results of operations and prospects may be adversely affected.

***We may seek to expand through acquisitions, but we may be unsuccessful in our ability to manage such acquisitions and we may not realize the anticipated benefits from such acquisitions.***

To enhance our growth, we may acquire businesses, manufacturing facilities, technologies or know-how that we believe would benefit us in terms of product development, manufacturing or distribution.

As we have limited experience with acquisitions, we may experience:

- difficulties in integrating the acquired companies, technologies, personnel or products into our existing business, particularly integrating different quality management, customer relationship management and other business functions;
- delays or failures in realizing the benefits from any acquired company, products or know-how, which could result from, for example, delays in governmental approvals of products developed by acquired businesses;
- diversion of our management's time and attention from other business concerns;
- higher costs of integration than we anticipated; or
- difficulties in retaining key employees of any acquired business who are necessary to manage these acquisitions.

If we acquire businesses that operate outside the PRC or offer products that are different from our existing products, these risks may increase because of our limited experience in operating such businesses.

An acquisition could also materially impair our results of operations by causing us to incur debt or requiring us to amortize acquired intangible assets. We may also discover deficiencies in internal controls, data adequacy and integrity, product quality and regulatory compliance, and product liabilities in acquired businesses which we did not uncover prior to such acquisition. As a consequence, we may become subject to penalties, lawsuits or other liabilities. Any difficulties in the integration of acquired businesses, product or technologies or unexpected penalties, lawsuits or liabilities in connection with acquired businesses, product or technologies could have a material adverse effect on our business, financial condition and results of operations.

***Our success depends substantially on the continuing efforts of our executive management team and other key personnel, and losing their services would severely disrupt our business and materially and adversely impact our results of operations.***

Our future success depends substantially on the continuing services of our senior management team, in particular, Mr. Jianhui Lai, our founder, chairman, chief executive officer and controlling shareholder. Mr. Lai has over 20 years of experience in the commercial vehicle wheel industry, particularly in managing vehicle wheel businesses. Mr. Lai's experience and efforts have been instrumental in the development of our company. If Mr. Lai or any of our other senior executives or key personnel are unable or unwilling to remain with our company, we may not be able to replace them with appropriate candidates, our business may be disrupted and our business, financial condition, results of operations and prospects may be materially and adversely affected.

We do not maintain key-man insurance for members of our management team or any of our other key personnel. If we lose the services of any member of our senior management team or key personnel, we may not be able to locate suitable or qualified replacements, and we may incur additional expenses to recruit and train new personnel, which could severely disrupt our business and prospects. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may lose some of our customers and trade secrets. While we generally attempt to protect our trade secrets by entering into non-disclosure/confidentiality and non-competition agreements with our executive officers as well as key personnel who have access to sensitive and confidential information, we cannot assure you that, in light of uncertainties associated with the PRC legal system, these agreements could be enforced in the PRC. Please refer to "—Risks Relating to Doing Business in the PRC—Uncertainties with respect to the PRC legal system could limit the protections available to you and us."

***Our business depends on our ability to maintain a skilled labor force, and our business may be adversely disrupted if we fail to continue to attract, train and retain our highly qualified technical personnel.***

Our success depends, to a significant extent, on our ability to attract, train and retain technical experts, research and development personnel, engineers, post-sales services personnel and sales and marketing personnel, particularly those with expertise and experience in the automotive or automotive component industry. There is substantial competition for those professionals, and there can be no assurance that we will be able to continuously attract or retain them. If we are unable to attract and retain valuable employees, to keep pace with our expected growth, our business, financial condition, results of operations and prospects may be materially and adversely affected.

***Our labor costs may increase in the PRC.***

Labor is a key component of our manufacturing operations in the PRC. In addition to the labor contract law, discussed below in "—Risks Relating to Doing Business in the PRC—The enforcement of the PRC labor contract law and its implementation rules and increase in labor costs in the PRC may adversely affect our business and our profitability," other factors may increase our costs of labor in the PRC. As the PRC economy continues to develop, its labor force is becoming more educated and is undergoing other demographic changes. As a result, the number of available workers for our manufacturing operations may decrease or such workers may demand higher wages. In addition, increases in the size or number of our competitors or other manufacturing businesses may adversely affect our ability to recruit and retain workers for our own manufacturing operations. Our total staff costs in 2014, 2015 and 2016 were RMB332.9 million, RMB297.3 million and RMB278.7 million (US$40.1 million), which represented 10.0%, 12.2% and 12.4% of our revenue in each of those years, respectively. A significant increase in labor costs for our operations in the PRC could adversely affect our business, financial condition, results of operations and prospects.

***We are subject to credit risks of our customers, and our trade receivables are relatively large.***

Our customers may default in their payments to us from time to time. We conduct regular reviews of our credit exposure to our customers. Credit risk arises from events and circumstances beyond our control or events which are difficult to anticipate or detect, such as an economic downturn or deterioration in the financial position of our customers.

For our PRC aftermarket sales, our tier-one distributors are required to provide us a credit deposit typically equal to approximately one-month of indicative annual purchase amount. Depending on the actual sales amount, we typically provide our tier-one distributors a credit term of 45 to 55 days from the delivery of our products. We typically provide our OEM customers in the PRC a credit term of 55 to 75 days from the delivery of our products, depending on the sales amount and, in 2014, we extended credit terms to 60 to 90 days to alleviate the stress of some of our OEM customers. For international sales, we typically provide our customers a credit term of 30 days from delivery of our products. For certain new international customers, we require payment of the entire purchase price at the time of purchase. As of December 31, 2014, 2015 and 2016, we had trade receivables of RMB577.1 million, RMB416.2 million and RMB438.8 million (US$63.2 million), respectively, which represented 17.3%, 17.0% and 19.5% of our revenue in each of those years, respectively.

If our customers fail to timely pay us, require us to extend credit to them beyond our customary payment periods or otherwise default on their payments in an amount in excess of any previously paid deposit, we may be unable to generate sufficient cash flow to meet our cash flow requirements, and we would need to make provisions for doubtful debts or incur bad debt write-offs, which may adversely affect our financial performance. Disputes which arise due to default in payment by customers may also incur time and substantial costs in claiming for such payments and thus affect our liquidity, business, financial condition, results of operations and prospects.

***Our operating results may fluctuate considerably from quarter to quarter, and these fluctuations could have an adverse effect on the price of our ADSs.***

Our results of operations have fluctuated in the past and may continue to fluctuate significantly from quarter to quarter as a result of a number of factors, many of which are beyond our control, including, among others:

- seasonal or periodic fluctuations in our customers' and end-users' businesses, which could cause variability or unpredictability in the volume and timing of our customers' purchase orders;
- price fluctuations and shortages of raw materials that we purchase from suppliers;
- the rate and cost at which we are able to expand our internal production capacity to meet customer demand and the timeliness and success of these expansion efforts;
- foreign currency fluctuations, particularly fluctuations in the exchange rates of the Renminbi, U.S. dollar and Euro;
- our success in maintaining, establishing and expanding customer relationships;
- changes in our manufacturing costs, selling prices and the relative sales mix of our products;
- timing of new product or technology developments, announcements, or introductions by us or our competitors and other developments in our competitive environment;
- changes in the regulatory environment of our industry; and
- economic, political and other conditions in the PRC and elsewhere.

Historically, our revenues have typically been higher in the second and fourth quarters and lower in the first and third quarters of each year. We cannot be certain if or how our results of operations will be affected by seasonal trends in future periods.

In addition, if our revenue in a particular quarter is lower than we expect, we may be unable to reduce our operating expenses, in particular our advertising and promotion expenses, for that quarter by a corresponding amount. This could have a material adverse effect on our operating results for that quarter. You should not rely on our results from any quarter as an indication of future performance. Quarterly variations in our operations could result in significant volatility in the market for our ADSs, and the market price for our ADSs might fall below the initial public offering price. The occurrence of any of the risks described above could result in harm to our business, financial condition, results of operations and prospects, especially if it continues for a period of time or is not mitigated in subsequent periods.

***Our patents, trademarks and other intellectual property are important assets for our business, and if we are unable to protect them, or if other parties claim we are infringing their intellectual property, then our business, financial condition, results of operations and prospects may be materially and adversely affected.***

We have developed a large portfolio of intellectual property rights in the PRC to protect the technologies, inventions and improvements significant to our business, and we believe that this portfolio is important for us to maintain a competitive advantage in the marketplace. As of December 31, 2016, we owned a total of 83 patents in the PRC. In addition, we had registered 539 trademarks with China’s Trademark Office as of December 31, 2016, and are currently in the process of applying for 4 additional trademarks in the PRC. We also have a number of trademarks and trademark applications in a number of the countries to which we export our products.

Our success will depend in part on our ability to obtain and enforce protection for patents, trademarks and other intellectual property against third-party challenges. We will only be able to protect our patents, trademarks and other intellectual property from unauthorized use by third parties to the extent that we obtain valid and enforceable intellectual property rights with respect to them. Furthermore, the degree of future protection of our intellectual property rights is uncertain because legal means may only provide limited protection and may not adequately protect our exclusive proprietary interest or permit us to gain or keep our competitive advantage.

We rely primarily on intellectual property laws and contractual arrangements with our employees and others to protect our intellectual property rights. We have entered into agreements with our executive officers and employees involved in technology and research and development, under which intellectual property during most of their employment belongs to us, and they waive all relevant rights or claims to such intellectual property. Generally, our executive officers and employees involved in technology and research and development are also bound by a confidentiality obligation and have agreed to disclose and assign to us inventions conceived by them during their term of employment. While we actively take steps to protect our intellectual property rights, such steps may not be adequate to prevent the infringement or misappropriation of our intellectual property. The counterparties to our confidentiality agreements may not follow such agreements, or our confidentiality agreements may not be enforceable or provide an adequate remedy in the event of unauthorized use or disclosure. Infringement or misappropriation of our intellectual property could harm our business and leading market position.

We have sold, and expect to continue to sell, a significant portion of our products outside the PRC, where we currently have no patent protection. In these jurisdictions, others may independently develop substantially equivalent technologies or processes, or otherwise gain access to our proprietary technologies or processes, and obtain patents for such intellectual properties, including in countries in which we sell our products, which could allow those patent holders to prevent us from selling any of our products that infringe those foreign patents in those countries.

Our competitors are also developing and seeking patent protection for technologies in connection with the manufacturing of steel wheels. We expect our competitors to continue to take steps to protect these technologies, including seeking patent protection. There may be patents issued or pending held by others that cover significant parts of our technology or business methods. Disputes over rights to these technologies may arise in the future. We cannot be certain that our products do not or will not infringe valid patents or other intellectual property rights held by third parties. As a result, we may be subject to legal proceedings and claims from time to time relating to the intellectual property of others.

If we are not able to protect our patents, trademarks and other intellectual property, we will not be able to exclude competitors from developing or producing competing products using the relevant technologies or processes. Similarly, if other parties assert claims that we are infringing their intellectual property, they may be able to prevent us from using certain technologies or processes or from producing certain types of products. Any of these situations may adversely affect our business, financial condition, results of operations and prospects.

***Our future capital needs are uncertain, and we may not be successful in raising sufficient funds in the future, particularly to fund our expansion activities.***

Our future capital needs are uncertain because our expenditures may exceed our current expectations. Such increased expenditures could occur for a number of reasons, including, for example, if we devote a significant amount of financial resources to expansion of production capacity or to the research and development of new products or manufacturing techniques that we believe to have significant commercial potential. Our ability to raise additional funds in the future is subject to a variety of uncertainties, including:

- market conditions for capital-raising activities by PRC-based companies, such as investors' perception of, and demand for, securities of PRC-based auto component manufacturers;
- the regulatory environment, including regulation of our industry and PRC governmental policies relating to foreign currency borrowings;
- our future financial condition, results of operations and cash flows; and
- economic, political and other conditions in the PRC and elsewhere.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds that are necessary for our operations on terms favorable to us could have a material adverse effect on our liquidity and financial condition.

***If we raise additional funds, we may dilute existing shareholders or increase our debt, which in turn could restrict our operations or ability to pay dividends.***

If our revenue is not sufficient to meet our operational needs and capital requirements or if we have future liquidity needs or other business reasons, we may need (or we may elect) to sell additional equity or debt securities or borrow funds to raise capital. The sale of additional equity or equity-linked securities could result in additional dilution to our shareholders and a reduction in the price of our ADSs. The incurrence of additional debt would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends. As a result, we may be more vulnerable to general adverse economic and industrial conditions, be limited in our ability to pursue our expansion plans, be required to allocate a significant portion of our cash flow from operations to repay our debts, reducing the availability of our cash flow to fund capital expenditures, working capital and other corporate purposes, and limiting our flexibility in planning for, or reacting to, changes in our business and the market environment.

***If we fail to maintain an effective system of internal control over financial reporting, we may lose investor confidence in the reliability of our financial statements which in turn could negatively impact the trading price of our ADSs or otherwise harm our reputation.***

The SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring public companies to include a report of management on the effectiveness of such companies' internal control over financial reporting in their respective annual reports.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting and concluded that our internal control over financial reporting was effective as of December 31, 2016. However, if we fail to maintain effective internal control over financial reporting in the future, our management may not be able to conclude that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act of 2002. Moreover, effective internal control over financial reporting is necessary for us to produce reliable financial reports. Any failure to maintain effective internal control over financial reporting could also result in the loss of investor confidence in the reliability of our financial statements, which in turn could negatively impact the trading price of our ADSs or otherwise harm our reputation. Furthermore, if we fail to maintain effective internal control over financial reporting in the future, we may also need to incur additional costs and use additional management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and other requirements going forward.

***Our manufacturing operations are subject to environmental, health and safety regulations. Any actual or alleged violation of these regulations could result in regulatory actions, fines and other penalties, including suspending production or ceasing operations, civil or criminal claims resulting in potentially significant monetary damages, adverse publicity and other negative consequences.***

Our production process primarily generates and discharges waste water, waste gas, noise and solid waste, and we are required to comply with certain national and local environmental, health and safety regulations. We believe that we have instituted environmental, health and safety procedures and measures that comply with the relevant regulations in the PRC in all material respects. We also sell certain of our solid waste, such as scrap steel, to third parties or recycling stations. However, we cannot completely eliminate the environmental, health and safety risks associated with our waste materials. If more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. If we fail to comply with present or future environmental, health and safety regulations, we could be subject to regulatory actions, fines and other penalties, including suspending production or ceasing operations, civil or criminal claims resulting in potentially significant monetary damages, adverse publicity and other negative consequences, all of which could have a material adverse effect on our reputation, business, financial condition, results of operations and prospects.

***Our business benefits from certain PRC government tax incentives. Expiration of, or changes to, these incentives and PRC tax laws could have a material adverse effect on our operating results.***

Prior to January 1, 2008, our PRC subsidiaries were subject to PRC enterprise income tax at a statutory tax rate of 33.0%. The PRC Enterprise Income Tax Law, or the EIT Law, and the implementation rules issued by the State Council of the PRC, or the State Council, became effective as of January 1, 2008. The EIT Law provides that all enterprises in the PRC, including foreign-invested companies, are subject to a uniform 25.0% enterprise income tax rate and all tax reduction or exemption as well as incentives previously provided to foreign-invested enterprises were to be cancelled. Accordingly, our PRC subsidiaries were subject to PRC enterprise income tax at a statutory rate of 25.0% after January 1, 2008, except for (i) Zhengxing Wheel, which has been recognized as a “High and New Technology Enterprise” and enjoys a preferential tax rate of 15.0% from 2008 to 2016, (ii) Zhengxing Group Langfang Wheel Co., Ltd., which has been recognized as a “High and New Technology Enterprise” enjoys a preferential tax rate of 15.0% from 2009 to 2014, (iii) Zhengxing Group Hefei Wheel Co., Ltd., which has been recognized as a “High and New Technology Enterprise” and enjoys a preferential tax rate of 15.0% from 2010 to 2015 (the preferential tax rate of 15.0% applied retrospectively for 2010, the effect of which was not reflected in our income tax expense in 2010, and relevant adjustments were made in our consolidated financial statements for 2011) and (iv) Zhengxing Group Chengdu Wheel Co., Ltd., which was incorporated in the western region of the PRC in July 2004 and derived more than 70.0% of its total income from the business of state-encouraged industry and enjoys a preferential tax rate of 15.0% from its inception in 2004 to 2020.

These preferential income tax rates are subject to periodic review and renewal by PRC authorities. If our subsidiaries fail to maintain their preferential tax statuses, their applicable EIT rate may increase to up to 25.0%, which could have a material adverse effect on our results of operations. We cannot assure you that we will be able to maintain our current effective tax rate in the future.

We also benefit from PRC tax policies designed to encourage exports. In the PRC, steel and aluminum wheels are normally subject to a value-added tax, or VAT, of 17.0%, but we receive a full rebate of or exemption from the VAT for the steel and aluminum wheels that we export. The value of these VAT exemptions and rebates amounted to approximately RMB85.9 million, RMB80.0 million and RMB61.7 million (US$8.9 million) in 2014, 2015 and 2016, respectively. However, these VAT exemptions and rebates for exported steel wheels may be eliminated by the PRC government. If this occurs, our business, financial condition, results of operations and prospects may be materially and adversely affected.

***We may suffer uncompensated losses from events that disrupt our operations because we do not have adequate insurance.***

We currently only maintain limited insurance, covering our major fixed assets, equipment and machinery. Our manufacturing operations are subject to risks including fire, theft, labor disputes, equipment breakdown or failure, natural disasters and non-compliance with the applicable laws or regulations. If any of these events occur at our manufacturing facilities, our manufacturing operations may be materially and adversely disrupted. There is no certainty that our insurance for our major fixed assets, equipment and machinery is sufficient to indemnify us against the losses that may arise from such events. We do not currently maintain insurance coverage for business interruption, product liability or death of key members of management. If an event occurs for which we have inadequate or no insurance coverage, our business, financial condition, results of operations and prospects may be adversely affected.

***If we have difficulty obtaining sufficient capital for operations or expansion, our business, financial condition, results of operations and prospects may be materially and adversely affected.***

We had net current assets of RMB736.4 million, RMB732.9 million and RMB834.8 million (US$120.2 million) as of December 31, 2014, 2015 and 2016, respectively. We believe that our current levels of cash and cash flows from operations, combined with funds available to us through financing and the net proceeds from our initial public offering, will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, we may need additional cash resources in the future if we experience changed business conditions or other developments or if we wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If we determine that our cash requirements exceed our cash on hand, we may seek to issue debt or equity securities or obtain a credit facility. Any issuance of equity or equity-linked securities could dilute our shareholders. Any incurred debt could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all. If we have difficulty obtaining sufficient capital for operations or expansion, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**Risks Relating to Doing Business in the PRC**

***Adverse changes in political and economic policies of the PRC government could have a material and adverse effect on the overall economic growth of the PRC, which could reduce the demand for our products and adversely affect our leading competitive position.***

We conduct all of our manufacturing and have historically derived the majority of our revenue in the PRC. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including:

- the degree of government involvement;
- the level of development;
- the growth rate;
- the control of foreign exchange;
- access to financing; and
- the allocation of resources.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in the PRC is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over PRC economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy. The PRC economy has also experienced certain adverse effects due to the recent global financial crisis. The PRC government has implemented various measures to encourage and maintain economic growth and to guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our operating results and financial condition may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us, and by government policies or guidance aimed at curtailing the perceived over-capacity of certain industry sectors, such as steel. The PRC government has implemented certain measures, including interest rate increases, to control the pace of economic growth. The PRC government has also discontinued certain stimulus measures implemented to deal with the recent global financial crisis, including incentives for consumers to purchase automobiles and other vehicles and may implement tightening measures to control inflation. These actions may cause decreased economic activity in the PRC, which could in turn reduce the demand for our products and materially and adversely affect our financial condition and results of operations.

Any adverse change in the economic conditions or government policies in the PRC could have a material and adverse effect on overall economic growth, particularly in the automotive industry in the PRC, which in turn could lead to a reduction in demand for our products and consequently have a material and adverse effect on our businesses.

***Uncertainties with respect to the PRC legal system could limit the protections available to you and us.***

The PRC legal system is a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in the PRC. We conduct all of our business through our subsidiaries established in the PRC. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in the PRC. However, since many laws, rules and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protections that we enjoy either by law or contract.

However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of PRC administrative and court proceedings and the level of legal protection we enjoy in the PRC than in more developed legal systems. These uncertainties may impede our ability to enforce the agreements we have entered into with our business partners, distributors, customers and suppliers. Currently, all governmental approvals relating to our operations and production capacity expansion plans have been issued by the relevant competent local government authorities. However, if a central government agency requires us to obtain its approval and if we fail to obtain such approval in a timely manner, or at all, we may be subject to the imposition of fines against us or the suspension or cessation of our production capacity expansion plans.

In addition, such uncertainties, including the inability to enforce our agreements, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in the PRC may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention.

***We rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.***

We currently conduct our business through our subsidiaries established in the PRC. We rely on dividends paid by these subsidiaries for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in the PRC is subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in the PRC. Each of our PRC subsidiaries that is a domestic company is also required to set aside at least 10.0% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the accumulative amount of such reserves reach 50.0% of its respective registered capital. As of December 31, 2016, the accumulated profits of our PRC subsidiaries, that were unrestricted and were available for distribution amounted to RMB1,157.9 million (US$166.8 million). Our restricted reserves are not distributable as cash dividends. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

***PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds we receive from our initial public offering to make loans or additional capital contributions to our PRC operating subsidiaries.***

In utilizing the proceeds we received from our initial public offering, as an offshore holding company with PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries.

Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. Loans by us to domestic PRC enterprises must be approved by the relevant government authorities and must also be registered with the SAFE or its local counterpart.

Any capital contributions to our PRC subsidiaries must be approved by the Ministry of Commerce of the PRC, or the MOFCOM, or its local counterpart. On August 29, 2008, the State Administration of Foreign Exchange of the PRC, or the SAFE, promulgated the Circular on Issues Relating to the Improvement of Business Operation With Respect to the Administration of Foreign Exchange Capital Payment and Settlement of FIEs, or Circular 142, which regulates the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Circular 142 requires that Renminbi converted from the foreign currency-denominated capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise. In addition, the SAFE strengthened its oversight over the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested company. The use of such Renminbi may not be changed without approval from the SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Rules.

We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future loans or capital contributions to our direct or indirect subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of our initial public offering and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and ability to fund and expand our business.

***PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability, limit our ability to inject capital into our consolidated PRC entities, limit the ability of our consolidated PRC entities to distribute profits to us, or otherwise adversely affect us.***

On July 4, 2014, the SAFE issued the *Notice on Issues Relating to the Administration of Foreign Exchange for Overseas Investment and Financing and Reverse Investment by Domestic Residents via Special Purpose Vehicles*, or Circular 37, which replaced the *Circular on Relevant Issues Concerning Foreign Exchange Control Over Financing and Return Investment of Domestic Residents through Overseas Special Purpose Vehicles*, or Circular 75, previously issued in October 2005. Pursuant to Circular 37, any PRC residents, including both PRC institutions and individual residents, are required to register with the local SAFE branch before making contribution to a company set up or controlled by the PRC residents outside of the PRC for the purpose of overseas investment or financing with their legally owned domestic or offshore assets or interests, referred to in this circular as a “special purpose vehicle.” Our current beneficial owners who, to our knowledge, are PRC residents are in the process of registering with the local SAFE branch as required under Circular 75. We cannot, however, provide any assurances that such registration will be completed in a timely manner, or at all, or that any future beneficial owners who are PRC residents will be able to comply with the SAFE regulations in a timely manner, or at all. Any failure of our current or future beneficial owners who are PRC residents to comply with the registration procedures set forth in Circular 37 may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute additional capital into our consolidated PRC entities, limit our consolidated PRC entities’ ability to distribute dividends to us or the offshore entities set up by our beneficial owners or otherwise materially and adversely affect our business.

***Any requirement to obtain prior approval from the China Securities Regulatory Commission, or the CSRC, and a failure to obtain this approval, if required, could have a material and adverse effect on our business, operating results, reputation and trading price of our ADSs.***

On August 8, 2006, six PRC regulatory agencies, namely, the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, or the SASAC, the State Administration of Taxation of the PRC, or the SAT, the State Administration for Industry and Commerce of the PRC, or the SAIC, the CSRC, and the SAFE, jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the 2006 M&A Rule, which became effective on September 8, 2006 and was amended in June 2009. The 2006 M&A Rule purports, among other things, to require offshore special purpose vehicles, or SPVs, formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC issued a clarification that sets forth the criteria and process for obtaining any required approval from the CSRC.

While the application of the 2006 M&A Rule remains unclear, we believe, based on the advice of our PRC counsel, that CSRC approval was not required in the context of our initial public offering as, among other reasons, we were not considered a special purpose vehicle formed or controlled by PRC companies or PRC individuals. However, we cannot assure you that the relevant PRC government agency, including the CSRC, would reach the same conclusion as our PRC counsel. If the CSRC or other PRC regulatory body subsequently determines that we need to obtain the CSRC’s approval for our initial public offering, we may face regulatory actions or other sanctions by the CSRC or other PRC regulatory agencies. In such event, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from our initial public offering into the PRC, or take other actions that could have a material and adverse effect on our reputation, business, financial condition, results of operations and prospects, as well as the trading price of our ADSs.

We cannot predict when the CSRC will promulgate additional rules or other guidance, if at all. Moreover, implementing rules or guidance, to the extent issued, may fail to resolve current ambiguities under the 2006 M&A Rule. Uncertainties or negative publicity regarding the 2006 M&A Rule also could have a material and adverse effect on the trading price of our ADSs.

***The 2006 M&A Rule and Security Review Rule set forth complex procedures for acquisitions conducted by foreign investors that could make it more difficult to pursue acquisitions.***

The 2006 M&A Rule sets forth complex procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Complying with the requirements of the 2006 M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

In addition, on February 3, 2011, the State Council promulgated the Notice on the Establishment of the Security Review System in Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the Security Review Rule, which became effective 30 days after February 3, 2011. The Security Review Rule, among other things, provides that merger and acquisition transactions by foreign investors of domestic enterprises in sensitive sectors or industries may be subject to security review and, as a result may be blocked due to their impact on the national defense security, national economic stability, basic social life order, or capacity of indigenous research and development of key technologies. The impact of the Security Review Rule with respect to our future merger and acquisition transactions of PRC domestic enterprises remains unclear as such rule does not include a detailed list of sensitive sectors or industries. Although our industry is generally deemed as non-sensitive, the relevant PRC regulatory authorities may have a different view or interpretation in this regard when implementing the Security Review Rule. As a result, our future mergers and acquisitions of PRC domestic enterprises may be subject to PRC security review, which could be time-consuming and complex, and in turn affect our ability to expand our business or maintain our market share.

***The enforcement of the PRC labor contract law and its implementation rules and increase in labor costs in the PRC may adversely affect our business and our profitability.***

The PRC Labor Contract Law, or the Labor Contract Law, became effective on January 1, 2008 and was amended on December 28, 2012, and the implementation rules became effective on September 18, 2008. The Labor Contract Law and its implementation rules impose more stringent obligations on employers for, among others, entering into written employment contracts, hiring temporary employees, dismissing employees, setting compensations for dismissal and protecting certain sick or disabled employees from dismissal and setting forth detailed requirements relating to the contents of the employment contracts. The implementation of the Labor Contract Law may increase our operating expenses, in particular our personnel expenses, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law may also limit our ability to effect those changes in a manner that we believe to be cost-effective or desirable, which could adversely affect our business and results of operations.

***Failure to comply with PRC regulations regarding the registration requirements for employee equity incentive plans may subject our PRC citizen grantees or us to fines and other legal or administrative sanctions.***

On March 28, 2007, the SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Share Option Plan of Overseas-Listed Company, or the Share Option Rule. On February 15, 2012, the SAFE issued the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas-Listed Company, or the Stock Incentive Plan Rule, which replaced the Share Option Rule. Under the Stock Incentive Plan Rule, PRC citizens who are granted share options or other employee equity incentive awards by an overseas publicly-listed company are required, through a qualified PRC agent or a PRC subsidiary of such overseas publicly-listed company, to register with the SAFE and complete certain other procedures related to the share options or other employee equity incentive plans. We and our PRC citizen grantees are subject to these regulations. If we or our PRC citizen grantees fail to comply with these regulations, we or our PRC citizen grantees may be subject to fines and other legal or administrative sanctions.

***Fluctuation in the value of the Renminbi may have a material and adverse effect on your investment.***

Substantially all of our sales outside the PRC are in U.S. dollars. The change in value of the Renminbi against the U.S. dollar is affected by, among other things, changes in the PRC's political and economic conditions. From 1995 until July 2005, the People's Bank of China (the "PBOC") intervened in the foreign exchange market to maintain an exchange rate of approximately RMB8.28 per U.S. dollar. On July 21, 2005, the PRC government reformed this policy to allow the Renminbi to fluctuate within a narrow and managed band against a basket of certain foreign currencies. There have been a number of changes to the currency policy in the PRC since July 2005, and the Renminbi has appreciated significantly since then. On March 17, 2014, the PBOC announced a policy to further expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market to 2%.

In 2015, the RMB depreciated significantly. The center point of the currency's official trading band was 6.1265 in January, and was 6.4465 in December, which contributed to a decline in our 2015 international revenues. In 2016, the RMB continued to depreciate, with the currency's official trading band being 6.9430 at the end of the year.

Significant revaluation of the Renminbi may also have a material and adverse effect on your investment. For example, to the extent that we need to convert U.S. dollars we received from our initial public offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. If such events occur, the value of your investment in our shares or ADSs may be materially and adversely affected.

In addition, appreciation of the Renminbi against the U.S. dollar, the Euro or other currencies may adversely affect the competitiveness of our product pricing in markets outside the PRC. If such appreciation occurs, our products would cost more, if denominated in U.S. dollars, Euros or other currencies, when exported to our international markets, and thus our products may not be as competitively priced in those markets as products produced in other countries which use a currency that has not appreciated as much as the Renminbi. As a result, our export volume may be adversely affected, which may cause a decrease in our revenue from international sales. Therefore, appreciation of the Renminbi against the U.S. dollar, the Euro or other currencies could materially and adversely affect our business, financial condition, results of operations and prospects.

***Governmental control of currency conversion may affect the value of your investment.***

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive the majority of our revenue in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

***Dividends we receive from our subsidiaries located in the PRC may be subject to PRC withholding tax.***

Under the EIT Law, and its implementation rules, both of which came into effect on January 1, 2008, PRC enterprise income tax at the rate of 10.0% is generally applicable to dividends payable to investors that are “non-resident enterprises,” to the extent such dividends have their sources within the PRC, unless the tax rate is reduced by a tax treaty between the PRC and the relevant jurisdiction. We are a British Virgin Islands holding company, and substantially all of our income may come from dividends we receive from our subsidiary located in Hong Kong, which in turn derives substantially all of its income from our indirect subsidiaries located in the PRC. If our subsidiary in Hong Kong is considered a non-resident enterprise, dividends it receives from the subsidiaries in the PRC will generally be subject to a 10.0% withholding tax under the EIT Law and its implementing rules, or 5.0% withholding tax if the tax treaty between Hong Kong and the PRC is applicable, either of which will reduce the amount of dividends, if any, we may pay to our shareholders and ADS holders.

***We may be treated as a resident enterprise for PRC tax purposes under the EIT Law and we may therefore be subject to PRC income tax on our global income.***

Under the EIT Law and its implementation rules, enterprises established under the laws of foreign countries or regions whose “de facto management bodies” are located within the PRC territory are considered resident enterprises and will generally be subject to the uniform enterprise income tax at the rate of 25.0% on its global income, which excludes dividends received directly from another PRC resident enterprise. “De facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the SAT, issued the Notice on Determination of Tax Resident Enterprises of Chinese-controlled Offshore Incorporated Enterprises in accordance with Their De Facto Management Bodies, or Circular 82, that sets forth certain specific criteria for determining whether the “de facto management bodies” are located in the PRC for an offshore incorporated enterprise controlled by PRC enterprises. However, the relevant PRC laws and regulations remain unclear as to how the PRC tax authorities will treat an overseas enterprise, with all of its management team members residing in the PRC, invested or controlled by another overseas enterprise as in our case. If we are treated as a resident enterprise for PRC tax purposes, we would be subject to PRC enterprise income tax at the rate of 25.0% on our global income, which could adversely affected our net income and results of operations.

***Dividends payable by us to our foreign investors, and gains on the sales of our ordinary shares or ADSs, may be subject to taxes under PRC tax laws, which may materially reduce the value of your investment.***

Under the EIT Law and its implementation rules, PRC enterprise income tax at the rate of 10.0% is applicable to dividends payable to investors that are "non-resident enterprises," which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, gains realized on the transfer of ordinary shares or ADSs by such investors are also subject to the 10.0% PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. We are a British Virgin Islands holding company, and substantially all of our income may come from dividends we receive from our indirect subsidiaries located in the PRC. It is unclear whether the dividends we pay with respect to our ordinary shares or ADSs, or the gains realized on the transfer of our ordinary shares or ADSs, would be treated as PRC-sourced income and be subject to PRC taxes. If we are required under the EIT Law to withhold PRC enterprise income tax on our dividends payable to our non-PRC investors that are "non-resident enterprises," or if you are required to pay PRC income tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.

***The strengthened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our acquisition strategy.***

In connection with the EIT Law, the Ministry of Finance of the PRC and the SAT jointly issued, on April 30, 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. On December 10, 2009, the SAT issued the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698. Both Circular 59 and Circular 698 became effective retrospectively on January 1, 2008. By promulgating and implementing these circulars, the PRC tax authorities have strengthened their scrutiny over the direct or indirect transfer of equity interest in a PRC resident enterprise by a non-resident enterprise. For example, Circular 698 specifies that the SAT is entitled to redefine the nature of an equity transfer where offshore vehicles are interposed by abusing corporate structures for tax-avoidance purposes and without reasonable commercial intention. We may pursue acquisitions as one of our growth strategies, and may conduct acquisitions involving complex corporate structures. We cannot be assured that the PRC tax authorities will not, at their discretion, adjust the taxable capital gains of the seller, which may indirectly increase acquisition costs.

On February 3, 2015, the State Administration of Tax issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or Public Notice 7. Public Notice 7 has introduced a new tax regime that is significantly different from that under Circular 698. Public Notice 7 extends its tax jurisdiction to not only indirect transfers set forth under Circular 698 but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. In addition, Public Notice 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Public Notice 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an "indirect transfer" by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets, may report to the relevant tax authority such indirect transfer. Using a "substance over form" principle, the PRC tax authority may re-characterize such indirect transfer as a direct transfer of the equity interests in the PRC tax resident enterprise and other properties in China. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of up to 10%, for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties with respect to the reporting and consequences of private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company and other non-resident enterprises in our group may be subject to filing obligations or being taxed if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions, under Circular 698 and Public Notice 7. For the transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under Circular 698 and Public Notice 7. As a result, we may be required to expend valuable resources to comply with Circular 698 and Public Notice 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company and other non-resident enterprises in our group should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Circular 698 and Public Notice 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Circular 698 and Public Notice 7, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

***Our financial performance and prospects could be affected by natural disasters or health epidemics.***

Our business could be materially and adversely affected by natural disasters or the outbreak of health epidemics. In March 2011, a magnitude 9.0 earthquake followed by a tsunami struck northeast Japan devastating much of the affected areas and causing widespread damage and casualties. In addition, in May 2008, a magnitude 8.0 earthquake struck Sichuan Province and certain other parts of the PRC, causing severe damage and casualties. Moreover, certain countries and regions, including the PRC, have encountered incidents of the H5N1 strain of bird flu, or avian flu, as well as severe acute respiratory syndrome, or SARS, over the past few years and, more recently in 2009, the outbreak of influenza A (H1N1). There have also been recent reports of outbreaks of an avian flu caused by the H7N9 virus, including confirmed human cases, in China. We are unable to predict the effect, if any, that any future natural disasters and health and public security hazards may have on our business. Furthermore, such natural disasters and health and public security hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business and prospects.

***The audit report included in this annual report has been prepared by auditors who are not inspected fully by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit report included in our annual report filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board, or the PCAOB, is required by the laws in the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws in the United States and professional standards. However, because we have substantial operations within the PRC, the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities. As a result, our auditors are not currently inspected fully by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside the PRC have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in the PRC prevents the PCAOB from regularly evaluating our auditor’s audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in the PRC makes it more difficult to evaluate the effectiveness of our auditor’s audit procedures or quality control procedures as compared to auditors outside of the PRC that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

## Risks Relating to Our ADSs

***The market price for our ADSs has been and may continue to be volatile which could result in substantial loss to you.***

The market price for our ADSs has been and may continue to be highly volatile and subject to wide fluctuations in response to factors, including the following:

- announcements of competitive developments;
- regulatory developments in the PRC affecting us, our customers or our competitors;
- announcements regarding litigation or administrative proceedings involving us;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- additions or departures of our executive officers;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs; and
- sales or perceived sales of additional ordinary shares or ADSs.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. For example, since August 2008, multiple exchanges in the United States, Europe and other countries and regions, including China, experienced sharp declines in response to the growing global credit market crisis and the recession in the United States and Europe. Prolonged global capital markets volatility may affect overall investor sentiment towards our ADSs, which would also negatively affect the trading prices for our ADSs.

***Substantial future sales or perceived sales of our ADSs in the public market could cause the price of our ADSs to decline.***

Sales of our ADSs or ordinary shares in the public market after our initial public offering, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of March 31, 2017, we had 206,500,000 ordinary shares outstanding, including 62,499,988 ordinary shares represented by 15,624,997 ADSs. All ADSs sold in our initial public offering are freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. The remaining ordinary shares outstanding are available for sale, subject to restrictions as applicable under Rule 144 under the Securities Act. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

***Our controlling shareholder has substantial influence over our company and its interests may not be aligned with your interests.***

As of March 31, 2017, our controlling shareholder, Mr. Jianhui Lai (through Newrace Limited), beneficially owned approximately 69.5% of our outstanding ordinary shares. Mr. Lai is also our founder, chairman and chief executive officer. Please refer to Item 6E "Directors, Senior Management and Employees—Share Ownership" and Item 7B "Major Shareholders and Related Party Transactions—Related Party Transactions—Restricted Shares Granted to Mr. Yifan Li by Newrace Limited." Our controlling shareholder has a substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. These actions may be taken even if they are opposed by our other shareholders, including those who purchased ADSs in our initial public offering. Moreover, this concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs.

***We are exempt from certain corporate governance requirements of the New York Stock Exchange.***

We are exempt from certain corporate governance requirements of the New York Stock Exchange by virtue of being a foreign private issuer, as such term is defined in the rules promulgated by the SEC. We are required to provide a brief description of the significant differences between our corporate governance practices and the corporate governance practice required to be followed by U.S. domestic companies under the New York Stock Exchange rules. The standards applicable to us are considerably different from the standards applied to U.S. domestic issuers. For instance, we are not required to:

- have a majority of the board be independent (other than due to the requirements for the audit committee under the Exchange Act);
- have a minimum of three members on our audit committee;
- have a compensation committee, a nominating or corporate governance committee;
- provide an annual certification by our chief executive officer that he or she is not aware of any non-compliance with any corporate governance rules of the New York Stock Exchange;
- have regularly scheduled executive sessions with only non-management directors; or
- have at least one executive session of solely independent directors each year.

We have relied and intend to continue to rely on some or all of these exemptions. As a result, you are not provided with the benefits of certain corporate governance requirements of the New York Stock Exchange. Please refer to Item 16G "Corporate Governance."

***The depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, except in limited circumstances, which could adversely affect your interests.***

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders' meetings if you do not vote, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting; or
- a matter to be voted on at the meeting would have an adverse impact on shareholders.

The effect of this discretionary proxy is that you cannot prevent our ordinary shares underlying your ADSs from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

***Holders of ADSs have fewer rights than shareholders and must act through the depositary to exercise their rights.***

Holders of our ADSs do not have the same rights as our shareholders and may only exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Under our amended and restated memorandum and articles of association, as amended and restated from time to time, or memorandum and articles of association, the minimum notice period required to convene a general meeting is seven days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw the ordinary shares underlying your ADSs to allow you to vote with respect to any specific matter. If we ask for your instructions, we will give the depositary notice of any such meeting and details concerning the matters to be voted upon at least 30 days in advance of the meeting date and the depositary will send a notice to you about the upcoming vote and will arrange to deliver our voting materials to you. The depositary and its agents, however, may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the ordinary shares underlying your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ADSs are not voted as you request. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

***You may not receive distributions on our ordinary shares or any value for them if such distribution is illegal or if any required government approval cannot be obtained in order to make such distribution available to you.***

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses and any applicable taxes and government charges. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. For example, in March 2012, our board of directors declared a dividend to our shareholders in the amount of US$3.1 million, which has been paid to holders of ordinary shares and ADSs. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities whose offering would require registration under the Securities Act but not so properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not reasonably practicable to distribute certain property. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under the U.S. securities laws any offering of ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

***Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary bank will not make rights available to you unless either both the rights and any related securities are registered under the Securities Act, or the distribution of them to ADS holders is exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. If the depository does not distribute the rights, it may, under the deposit agreement, either sell them, if possible, or allow them to lapse. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

***If we are a passive foreign investment company, you may experience adverse tax consequences.***

We do not expect to be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for the current taxable year or any future taxable year. The PFIC determination, however, depends on the application of complex U.S. federal income tax rules concerning the classification of our assets and income for this purpose, and these rules are uncertain in some respects. In addition, the market value of our assets may be determined in large part by the market price of our ADSs or ordinary shares, which is likely to fluctuate, and the composition of our company's income and assets will be affected by how, and how quickly, we spend any cash we raise or generate. Accordingly, there can be no assurance that we will not be a PFIC for the current taxable year or in any future taxable year.

If we are treated as a PFIC for any taxable year, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. Please refer to Item 10E "Additional Information—Taxation—Material United States Federal Income Tax Considerations—Passive Foreign Investment Company."

***You may have difficulty enforcing judgments obtained against us.***

We are a company incorporated under the laws of the British Virgin Islands, and substantially all of our assets are located outside the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside the United States. In addition, there is uncertainty as to whether the courts of the British Virgin Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state.

***You may be subject to limitations on transfers of your ADSs.***

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

## Item 4. Information on the Company

### A. History and Development of the Company

***History of Our Predecessor, Zhengxing Wheel, and its Subsidiaries***

Our business commenced in 2003 with the incorporation of our predecessor, Zhengxing Wheel (initially named Fujian Zhengxing Wheel Co., Ltd.) under the laws of the PRC, which was then 80.0% owned by Mr. Jianhui Lai, our founder, chairman, chief executive officer and controlling shareholder, 5.0% owned by Mrs. Lizhu Lai (Mr. Jianhui Lai's spouse), 5.0% owned by Mr. Deshun Lai (Mr. Jianhui Lai's brother), 5.0% owned by Mr. Dexiong Lai (Mr. Jianhui Lai's brother) and 5.0% owned by Mr. Jianping Lai (Mr. Jianhui Lai's brother). Mr. Jianhui Lai and the other four founders subsequently made additional capital contributions to Zhengxing Wheel in 2003, 2005 and 2006, which ultimately increased Mr. Jianhui Lai's shareholding in Zhengxing Wheel to 89.3% with the other four founders owning the remaining equity interest.

In July 2004, Zhengxing Group Benxi Wheel Co., Ltd., or Zhengxing Benxi Wheel, was established under the laws of the PRC by Zhengxing Wheel (which owned 90.0% of its equity interest) and Mrs. Lizhu Lai (who owned 10.0% of its equity interest). In March 2008, Mrs. Lai sold her 10.0% equity interest in Zhengxing Benxi Wheel to Zhengxing Wheel, and Zhengxing Benxi Wheel became a wholly-owned subsidiary of Zhengxing Wheel. Zhengxing Benxi Wheel owns our manufacturing facilities in Benxi, Liaoning Province.

In July 2004, Zhengxing Group Chengdu Wheel Co., Ltd., or Zhengxing Chengdu Wheel, was established under the laws of the PRC by Zhengxing Wheel (which owned 60.0% of its equity interest) and Mrs. Lizhu Lai (who owned 40.0% of its equity interest). In March 2008, Mrs. Lai sold her 40.0% equity interest in Zhengxing Chengdu Wheel to Zhengxing Wheel, and Zhengxing Chengdu Wheel became a wholly-owned subsidiary of Zhengxing Wheel. Zhengxing Chengdu Wheel owns our manufacturing facilities in Chengdu, Sichuan Province, which we established through an asset purchase from Sichuan Xinbao Wheel Co., Ltd. in July 2004.

In January 2005, Zhengxing Group Langfang Wheel Co., Ltd., or Zhengxing Langfang Wheel, was established under the laws of the PRC by Zhengxing Wheel (which owned 90.0% of its equity interest) and Mrs. Lizhu Lai (who owned 10.0% of its equity interest). In March 2008, Mrs. Lai sold her 10.0% equity interest in Zhengxing Langfang Wheel to Zhengxing Wheel, and Zhengxing Langfang Wheel became a wholly-owned subsidiary of Zhengxing Wheel. Zhengxing Langfang Wheel owns our manufacturing facilities in Langfang, Hebei Province.

In June 2005, Zhengxing Group Hefei Wheel Co., Ltd., or Zhengxing Hefei Wheel, was established under the laws of the PRC by Zhengxing Wheel (which owned 90.0% of its equity interest) and Mrs. Lizhu Lai (who owned 10.0% of its equity interest). In March 2008, Mrs. Lai sold her 10.0% equity interest in Zhengxing Hefei Wheel to Zhengxing Wheel, and Zhengxing Hefei Wheel became a wholly-owned subsidiary of Zhengxing Wheel. Zhengxing Hefei Wheel owns our manufacturing facilities in Hefei, Anhui Province.

Mrs. Lizhu Lai initially held interests in each of the above-mentioned PRC subsidiaries as a minority shareholder due to certain PRC laws and regulations then in effect, which required that a PRC limited liability company must have more than one shareholder. She subsequently sold her minority interests in March 2008 to facilitate the acquisition of Zhengxing Wheel as described below.

We established Zhengxing Indo Wheels Private Limited in India in January 2012 to operate our planned steel wheel manufacturing facility in India. However, due to the ongoing economic difficulties in India including the instability of local economic conditions and fluctuation in the value of the Indian Rupee, we have suspended our plan to operate our planned steel wheel manufacturing facility in India for the time being and have deregistered Zhengxing Indo Wheels Private Limited.

In addition, we established Hua'an Zhengxing Wheel Co., Ltd. in November 2010 which began commercial production of our aluminum wheels in the third quarter of 2015 and is expected to continue to ramp up its capacity through 2019.

***Our Company and Our Hong Kong Subsidiary***

We, China Zenix Auto International Limited, are a British Virgin Islands holding company incorporated on July 11, 2008, with an authorized share capital of US$50,000 consisting of 50,000 ordinary shares with a par value of US$1.00 per share, by Newrace Limited and Richburg Holdings Limited, each incorporated under the laws of the British Virgins Islands. Pursuant to a share subscription and shareholders agreement dated August 10, 2008, as amended on August 12, 2008 (the terms of which were confirmed and further clarified by a deed of confirmation on April 21, 2011), we issued 45,000 and 5,000 ordinary shares, par value US$1.00 per share, to Newrace Limited and Richburg Holdings Limited, respectively. We were initially named Richwheel Limited, but, in preparation for our initial public offering, we changed our name to China Zenix Auto International Limited on November 3, 2010. We also effected a change to our authorized and issued share capital and a repurchase of our issued and outstanding shares on February 21, 2011, as a result of which and as of December 31, 2016, our authorized share capital consisted of 500,000,000 shares, with a par value of US$0.0001 each. As of December 31, 2016, there were 206,500,000 ordinary shares issued, fully-paid and outstanding.

On September 26, 2008, we established a wholly-owned subsidiary, China Wheel Limited, under the laws of Hong Kong. China Wheel Limited is an intermediate holding company with no operations of its own. The dividends it receives from the subsidiaries in the PRC are subject to a PRC withholding tax of 10.0%, to the extent it is considered a non-PRC resident enterprise under the EIT Law and its implementing rules, or 5.0%, to the extent the tax treaty between Hong Kong and the PRC is applicable. There is uncertainty as to the application of the EIT Law and its implementing rules. Please refer to Item 3D "Key Information—Risk Factors—Risks Relating to Doing Business in the PRC—Dividends we receive from our subsidiaries located in the PRC may be subject to PRC withholding tax."

***Acquisition of Zhengxing Wheel by Us***

On December 29, 2008, we, through China Wheel Limited, completed the acquisition of the entire equity interest of Zhengxing Wheel from its shareholders, including Mr. Jianhui Lai, with a cash consideration in the aggregate amount of RMB140.0 million as well as the grant of an option to Mr. Jianhui Lai described in the following paragraph. As a result of this acquisition, Zhengxing Wheel, together with its wholly-owned subsidiaries, ZhengxingLangfang Wheel, Zhengxing Chengdu Wheel, Zhengxing Hefei Wheel and Zhengxing Benxi Wheel, became our indirect wholly-owned subsidiaries. We currently conduct substantially all of our business through these PRC subsidiaries. This acquisition was approved by the relevant PRC government authorities on December 29, 2008.

In connection with our acquisition of Zhengxing Wheel, Ms. Laifan Chu, who was the then sole shareholder of Newrace Limited and an independent third party from Mr. Jianhui Lai and us prior to this acquisition, entered into a memorandum of understanding with Mr. Jianhui Lai on November 1, 2008, under which the parties agreed that Mr. Lai had an option to purchase any or all of the shares of Newrace Limited from Ms. Chu at a price to be agreed by the parties. On November 26, 2008, Ms. Chu and Mr. Lai orally agreed on the specific terms of Mr. Lai's option to purchase any or all of the shares of Newrace Limited, including the exercise price and that such option would take effect from January 1, 2009. On October 25, 2010, Ms. Chu and Mr. Lai entered into a share purchase option agreement which reiterated and finalized the terms of, and superseded, the prior memorandum of understanding and oral agreement between Ms. Chu and Mr. Lai. Pursuant to, and subject to the terms of, this share purchase option agreement, Mr. Lai had an option to purchase any or all of the share capital of Newrace Limited, consisting of 50,000 ordinary shares, par value US$1.00 per share, from Ms. Chu during the period from January 1, 2009 to December 31, 2013 at a price of US$400.0 per ordinary share, which price increased by 10.0% annually, calculated on a daily basis starting from January 1, 2009, until this option was exercised or lapsed. Mr. Lai previously undertook not to exercise this option until the expiration of the six-month period following May 11, 2011.

On December 19, 2012, Mr. Lai issued a notice of exercise to Ms. Chu pursuant to the terms of the share purchase option agreement. Pursuant to this notice, Mr. Lai exercised the option to purchase all of the 50,000 ordinary shares of Newrace Limited, and Mr. Lai and Ms. Chu agreed that these ordinary shares would be transferred and delivered to Mr. Lai on December 20, 2012 and the exercise price of US$27,934,000 would be paid by Mr. Lai to Ms. Chu within 90 business days from December 20, 2012. As a result, Mr. Lai became the sole shareholder of Newrace Limited on December 20, 2012.

***Our Initial Public Offering and Corporate Information***

We completed our initial public offering, which involved the sale by us and a selling shareholder of 11,610,000 and 1,290,000 of our ADSs, representing 46,440,000 and 5,160,000 of our ordinary shares, on May 17, 2011.

Our principal executive offices are located at No. 1608, North Circle Road State Highway, Zhangzhou, Fujian Province 363000, People's Republic of China. Our telephone number at this address is (86) 596-2600308, and our fax number is (86) 596-2600558.

Investor inquiries should be directed to us at the address and telephone number of our principal executive offices set forth above. Our website is www.zenixauto.com. The information contained on our website is not a part of this annual report. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, 4th Floor, New York, New York 10017.

In 2014, 2015 and 2016, our capital expenditures totaled RMB133.5 million, RMB87.3 million and RMB29.5 million (US$4.2 million), respectively. In past years, our capital expenditures consisted primarily of the purchase of property, plant and equipment, and the cost of obtaining land use rights and other costs incurred in connection with the construction and expansion of our various manufacturing facilities and a new aluminum wheel manufacturing facility. Our capital expenditures in 2016 have been funded by cash flow from operations.

In November 2013, our board of directors received a preliminary non-binding proposal for a business restructuring of the Company from Mr. Jianhui Lai, the chairman of the board of directors and chief executive officer, and RichWise International Investment Group Limited and certain of its affiliated entities (together, the "Consortium Members"). According to the proposal letter, the proposed business restructuring would involve a reorganization of our shareholding structure concurrently with a number of other transactions which, if consummated, would result in a significant change in our business focus, as described in the proposal letter. The proposal was subsequently withdrawn on July 18, 2014.

In February 2014, three minority shareholders of the Company (the "Claimants") filed a claim against us in the Eastern Caribbean Supreme Court of the British Virgin Islands (the "Claim"). In November 2014, the Claimants served an amended claim (the "Re-Amended Claim) on the Company and included three other defendants to the proceedings, including our chairman. We served our Defence in response to the Claim on April 28, 2014 and our Amended Defence in response to the Re-Amended Claim on January 23, 2015.

The Claimants argue that the affairs of the Company have been conducted in a manner that is oppressive to them as minority shareholders. Specifically, on November 23, 2013, our chairman put forward a proposal that we should consider changing our business operations to an online vacation property business (the "Proposal"). As a result of receiving the Proposal, the Claimants alleged that, amongst other things, the Company and the other defendants have failed to act in the best interests of the Company by failing to reject the Proposal outright, which contributed to the falling share price of the Company. Further, the Claimants alleged that all defendants (including the Company) have conspired together to "injure" the Claimants through this actions. The principal remedy Claimants sought against the Company and the other defendants is an order that they are jointly and severally liable to purchase the Company's shares from the Claimants. The Claimants also sought a permanent injunction to prevent the Proposal from taking place. On March 5, 2014, the Claimants obtained an ex-parte injunction against the Company and the other defendants to prevent them from going forward with the Proposal. The Company consented to the injunction staying in place for the time being, as it has always been our desire to seek shareholders approval before adopting the Proposal.

On July 21, 2014, the Proposal was formally withdrawn by our chairman.

On February 17, 2017, the Claimants, the Company and the three other defendants reached a confidential agreement to settle the Claim. The settlement does not obligate the Company to make any payment to the Claimants nor would the terms of the settlement affect the Company's operations. Each party had also agreed to be responsible for their own legal costs.

## B. Business Overview

### Overview

We are the largest commercial vehicle wheel manufacturer in the PRC in both the aftermarket and OEM market in terms of sales volume, and our leading market share has been increasing continuously in recent years. We believe that our products enjoy premium brand recognition in the industry, especially among end-users. We also export our products to more than 28 countries worldwide.

We design, manufacture and sell high quality steel wheels that are widely used by most types of commercial vehicles. Our product offering is one of the most diversified in the PRC commercial vehicle wheel industry. We currently offer more than 772 series of tubed steel wheels (which are typically used for commercial vehicles using tires that contain a rubber inner tube), tubeless steel wheels (which are typically used for commercial vehicles using tubeless tires), and off-road steel wheels (which are typically used for construction and other types of off-road vehicles). Each series of steel wheels comes in a range of performance specifications, sizes and colors to meet the various requirements of our customers. We believe that our products are well recognized for safety, strength and durability by our customers, especially under extreme road conditions, and that our products exceed industry standards in all major technical aspects, including safety, durability and stability. In particular, we have developed a type of tubeless steel wheel using a patented production technique for the design of the wheel disc. This type of wheel, other than its improved strength and reduced weight, exceeds industry standard in terms of durability by approximately three times, according to a test conducted by the National Automobile Quality Supervision and Test Center (Xiangfan). In addition, we have won a number of awards in the PRC in recognition of, among other things, our overall business operation capabilities, brand awareness and market share, including Fujian Brand-name Product Certificate in 2010, Top 30 PRC Automobile Industry Enterprise in 2011, The Most Influential Brands in the PRC Machinery Industry in 2012 and The Nation's Top 100 Automotive Component Suppliers in 2013 and 2014.

We have a diversified customer base with our products being sold in both the aftermarket and OEM market in the PRC and internationally. We sell our products to end-users in the PRC aftermarket through our nationwide distribution network which we believe is the most extensive distribution network among commercial vehicle wheel manufacturers in the PRC. As of December 31, 2016, our distribution network consisted of more than 3,799 distributors in the PRC, including 23 tier-one distributors, 2,461 exclusive tier-two distributors and 1,315 non-exclusive tier-two distributors, throughout the PRC. Our OEM customers included more than 82 automotive manufacturers in the PRC as of December 31, 2016, including the group members of a number of large PRC commercial vehicle manufacturers such as Anhui Jianghuai Automobile Group, SAIC Group, Zhengzhou Yutong Group, China National Heavy Duty Truck Group and Hino Motors Group. In international markets, we sold our products to more than 82 distributors in the aftermarket and directly to four OEMs as of December 31, 2016, including Li Li Ai of Burma, Oliver of the Philippines, Tata Daewoo of South Korea, Noman of Pakistan and LLC of Dubai India was our largest international market in 2012, and Thailand was our largest international market in 2014, 2015 and 2016.

We have six manufacturing facilities across China, located in Zhangzhou, Fujian Province; Langfang, Hebei Province; Chengdu, Sichuan Province; Hefei, Anhui Province; and Benxi, Liaoning Province. These manufacturing facilities are strategically located in close proximity to our steel suppliers, our OEM customers or ports for export, which we believe provide us with a significant advantage in production costs. Since our inception in 2003, we have established an integrated production platform covering all aspects of the design and production of a wide range of steel wheels, enabling us to quickly develop high quality products which are responsive to our customer needs, as well as to continuously improve our manufacturing process and operational efficiency.

We are committed to the research and development of new models of wheels as well as ongoing enhancements in existing product quality and production technology, in order to effectively adapt to the changing demands of our customers for better quality wheel products, as well as to improve our production efficiency. We maintain our own research and development team which we believe is one of the largest in the PRC commercial vehicle wheel industry, with 284 employees as of December 31, 2016 most having 10 to 20 years of experience in the industry. As part of our commitment to research and development, we have amassed a large patent portfolio covering all three types of patents, namely invention, utility model and design patents, through internal development. As of December 31, 2016, we owned a total of 83 patents in the PRC, including 4 invention patents, 73 utility model patents and 6 design patents. We place great emphasis on quality control in our operations and have implemented quality control procedures throughout our production process. Our comprehensive quality management system has been awarded ISO/TS 16949 quality management system certification since 2007, which certifies the satisfaction of specific quality management system requirements for the design and development, production and, when relevant, installation and service of automotive-related products, and ISO 9001:2000 quality management system certification from 2003 to 2006, which certifies the satisfaction of specific quality management system requirements for an organization to consistently provide products that meet customer and applicable regulatory requirements. At our headquarters in Zhangzhou, Fujian Province, we have also maintained one of the national wheel test centers designated by the PRC government for the testing of the specifications and roadworthiness of wheels sold in the PRC since September 2008. This test center has been granted ISO/IEC 17025 certification, which certifies the satisfaction of the general requirements to carry out tests and/or calibrations.

**Our Products**

We design, manufacture and sell steel and aluminum wheels in the PRC and internationally, which are used primarily in commercial vehicles. We offer our products to end-users in the aftermarket in the PRC through our nationwide distribution network. As of December 31, 2016, such network consisted of more than 3,799 distributors in the PRC, including 23 tier-one distributors, 2,461 exclusive tier-two distributors and 1,315 non-exclusive tier-two distributors, throughout the PRC. We also sell our products directly to OEMs in the PRC. In addition, we sell our products outside the PRC to both international distributors in the aftermarket and directly to international OEMs, primarily in Thailand and more than 27 other countries worldwide. We currently offer more than 772 series of tubed, tubeless and off-road wheels, with sizes ranging from 8 to 51 inches in diameter and 3 to 28 inches in width and which meet various specifications (including designs and colors) of our customers. In addition, we also sell our wheel components such as wheel discs to distributors for use in the aftermarket in the PRC and internationally, which accounted for an insignificant portion of our revenue in 2014, 2015 and 2016.

We believe that our broad range of products provides us with a competitive advantage over our competitors, enabling us to supply wheels for most types of commercial vehicles in the aftermarket and OEM market. Our diversified product offering also enables us to capture opportunities in the aftermarket, which is characterized by demand for a wide range of wheel types and sizes, but each in relatively small quantities, as well as to meet the various specifications required by OEMs of commercial vehicles and to adapt to changes in their requirements as they arise.

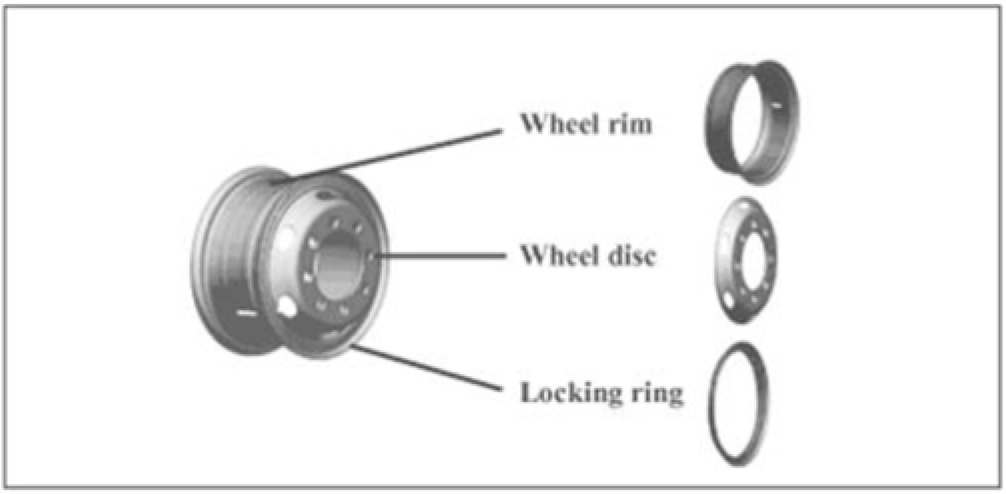
We focus on developing and manufacturing wheels with enhanced safety, strength and durability while, to the extent possible, reduced weight (and thus improved fuel efficiency). We believe that our products are well recognized for safety, strength and durability by our customers, especially under extreme road conditions, and that our products exceed industry standards in all major technical aspects, including in fatigue tests to determine how long the wheel can last and pulsation tests to determine a wheel’s ability to roll smoothly on the road. In particular, we have developed a tubeless steel wheel production method that is patented and unique, whereby we can produce tubeless steel wheels which have enhanced strength and durability by applying certain manufacturing processes traditionally only used for tubed steel wheels. Wheels manufactured under this processes, in addition to improved strength and reduced weight, also exceed industry standard in terms of durability by approximately three times, according to a test conducted by the National Automobile Quality Supervision and Test Center (Xiangfan).

***Tubed Steel Wheels***

Tubed steel wheels are typically used with traditional tires which have a tube to seal the air inside. These traditional tires have been or are currently being gradually replaced by tubeless tires in most markets in the world (with tubeless tires being widely used in developed countries and increasingly being used in developing countries). Tubed steel wheels and traditional tires are generally stronger than tubeless steel wheels and tubeless tires, and are generally used on unpaved roadways such as rural areas, construction sites and mines under low driving speed. They are also generally used by commercial vehicles carrying heavy loads on paved roadways, such as highways and city streets. A tubed steel wheel typically consists of a wheel rim, a wheel disc and a locking ring which are assembled together. The locking ring is removable to allow tire mounting.

We currently offer more than 341 series of tubed steel wheels with sizes ranging from 15 to 24 inches in diameter and 4.5 to 14 inches in width. Tubed steel wheels generated 57.8%, 56.1% and 54.6% of our revenue in 2014, 2015 and 2016, respectively.

The following shows the components of our tubed steel wheels:

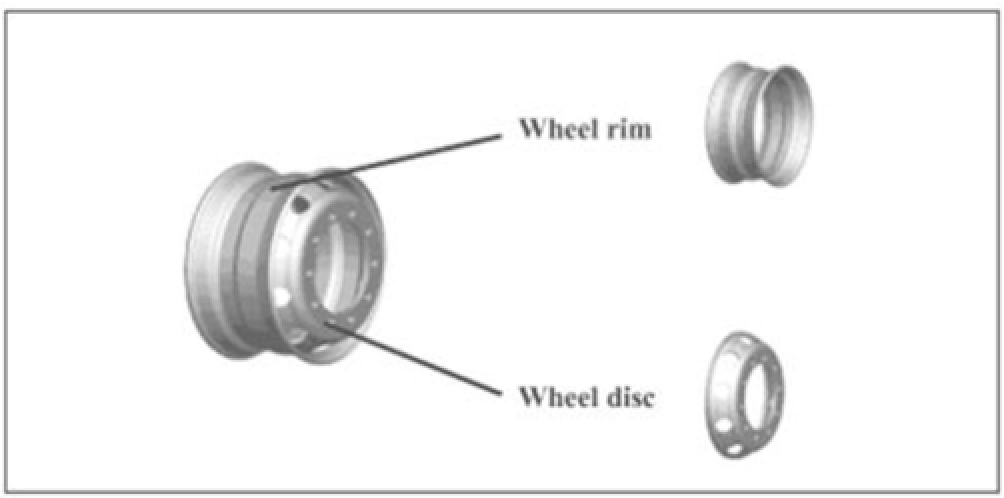



***Tubeless Steel Wheels***

Tubeless steel wheels are typically used with tubeless tires. Tubeless tires are more advanced than traditional tires (which have a tube to seal the air inside) primarily in terms of safety (as the air is released slowly when the tire is punctured leading to a gentle deflation of the tire), weight and fuel efficiency. Tubeless steel wheels and tubeless tires are suited for high driving speeds and are generally used on paved roadways such as highways and city streets. A tubeless steel wheel typically consists of a wheel rim and a wheel disc which are assembled together.

We currently offer more than 286 series of tubeless steel wheels with sizes ranging from 8 to 26 inches in diameter and 3 to 20 inches in width. Tubeless steel wheels generated 37.6%, 37.5% and 36.4% of our revenue in 2014, 2015 and 2016, respectively.

The following shows the components of our tubeless steel wheels:

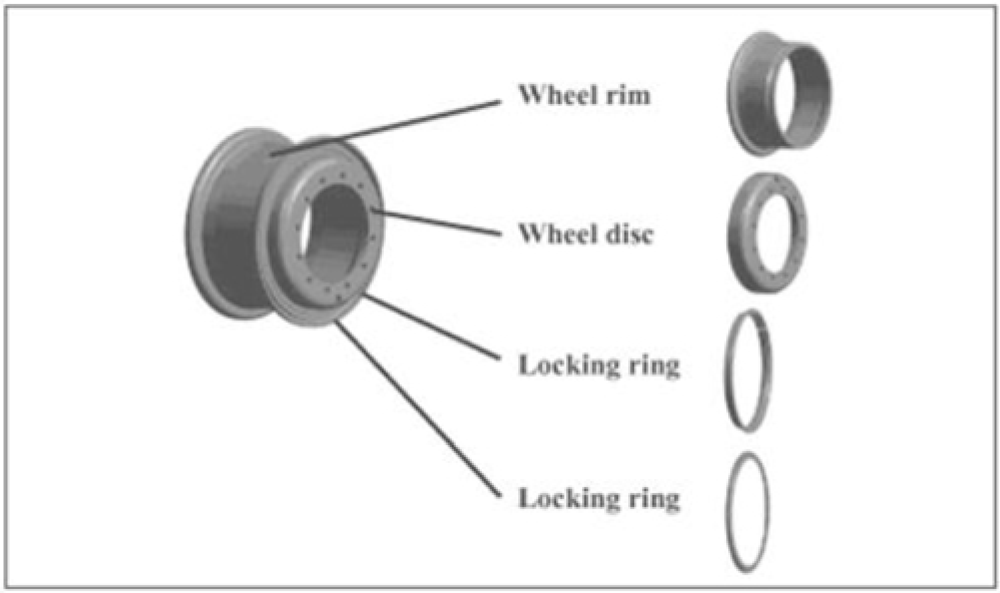



***Off-road Steel Wheels***

Off-road steel wheels are used in off-road vehicles, which are typically designed for short-distance loading and off-loading purposes at locations such as construction sites and mines. Off-road steel wheels can be tubed or tubeless, typically with larger sizes and stronger or thicker materials compared to our other steel wheels. Off-road steel wheels are generally approximately five to eight times more expensive than our other steel wheels because they require the use of more raw materials and are generally produced in relatively small batches due to the specialized nature of such wheels. A majority of our off-road steel wheels are tubed.

We currently offer more than 130 series of off-road steel wheels with sizes ranging from 15 to 51 inches in diameter and 6.5 to 28 inches in width. We commenced sales of off-road steel wheels in 2008 which accounted for 1.7%, 1.8% and 1.6% of our revenue in 2014, 2015 and 2016, respectively.

The following shows the components of our tubed off-road steel wheels:




### *Aluminum Wheels*

In November 2010, we established Hua'an Zhengxing Wheel Co., Ltd. as a part of our expansion to the aluminum wheel business, as the manufacturing of aluminum wheels require certain manufacturing equipment and techniques that are different from those used for steel wheels. After conducting extensive research and development for the production of aluminum wheels for use in commercial vehicles, we purchased the principal equipment and trained a number of technicians throughout 2014 and began commercial production at the third quarter of 2015. We also began production of aluminum wheels for various types of vehicles, such as high-end minibuses. We expect to continue to ramp up our aluminum wheels production capacity through 2019.

We currently offer more than 10 series of tubeless aluminum wheels. We commenced sales of aluminum wheels in September 2015 which accounted for 1.1% of our revenue in 2015. For 2016, sales of aluminum wheels accounted for 4.6% of our revenue.

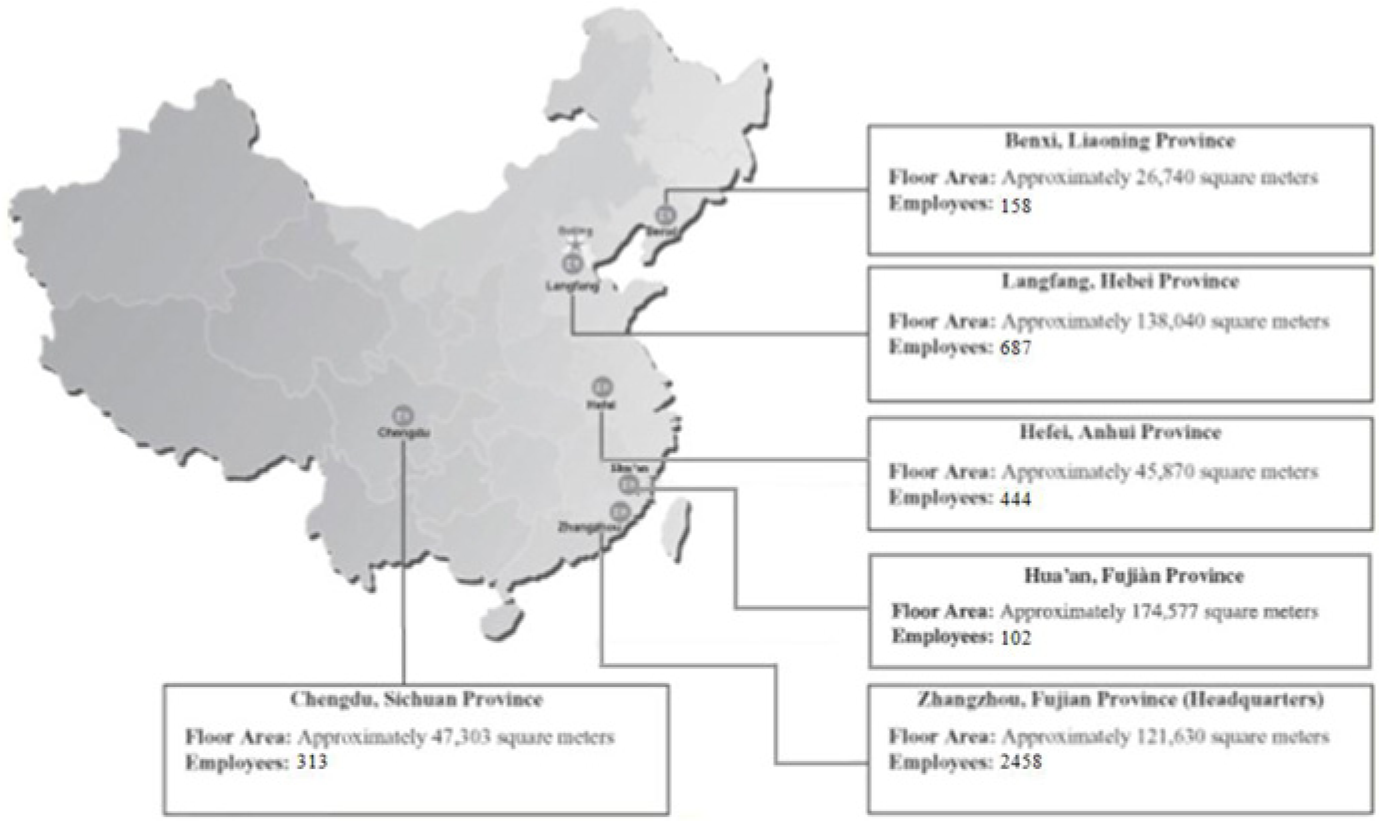
## Manufacturing

### *Manufacturing Facilities*

We have six manufacturing facilities across China, located in Zhangzhou, Fujian Province (our headquarters); Langfang, Hebei Province; Chengdu, Sichuan Province; Hefei, Anhui Province; and Benxi, Liaoning Province. We have also established a new aluminum wheel manufacturing facility in Hua'an, Fujian Province and began production at the third quarter of 2015. Our manufacturing facilities are strategically located in close proximity to our steel suppliers, our OEM customers or ports for export. In particular, our manufacturing facilities in Langfang, Hebei Province and Benxi, Liaoning Province are located close to our steel suppliers, and our manufacturing facilities in Chengdu, Sichuan Province and Hefei, Anhui Province are located close to our OEM customers. Our manufacturing facilities in Zhangzhou, Fujian Province are located close to ports for export. These strategic locations enable us to (i) reduce our raw material and product delivery transportation costs, which is an important cost component of both our raw materials and steel wheels, (ii) respond to changes in customer demand quickly and (iii) access a sufficient supply of skilled local labor force at relatively low cost compared to the labor cost at major urban centers in the PRC.

We have undergone a series of expansions to our existing manufacturing facilities in recent years, including in 2010, 2011 and the first half of 2012. While we temporarily suspended such expansion in the second half of 2012 and continued to suspend such expansion in 2013 primarily due to a decrease in our PRC aftermarket and OEM sales, we resumed our expansion plan in 2014, including establishing a new aluminum wheel manufacturing facility in Hua'an Fujian Province with a planned annual production capacity of 0.5 million aluminum wheel for which we purchased the principal equipment and trained a number of technicians during 2014, and began production at the third quarter of 2015. In the fourth quarter of 2015, we produced approximately 22,577 units of aluminum wheels. Our production volume for aluminum wheels reached 91,841 units in of 2016.

The following shows the geographic locations of our manufacturing facilities, with floor area and number of employees as of December 31, 2016:




***Production Capacity***

We believe that we have the largest production capacity of any commercial vehicle wheel manufacturer in the PRC. As of December 31, 2016, our manufacturing facilities had a designed annual production capacity of approximately 15.5 million units of steel and aluminum wheels, of which 9.5 million units were tubed steel wheels, 5.5 million units were tubeless steel wheels, 33,600 units were off-road steel wheels and 0.5 million units were aluminum wheels. The size of our manufacturing platform allows us to achieve significant economies of scale as we increase our production volume. With our large scale, we are also able to lower our costs by preparing various wheel components internally.

***Production Process***

*Components and Raw Materials*

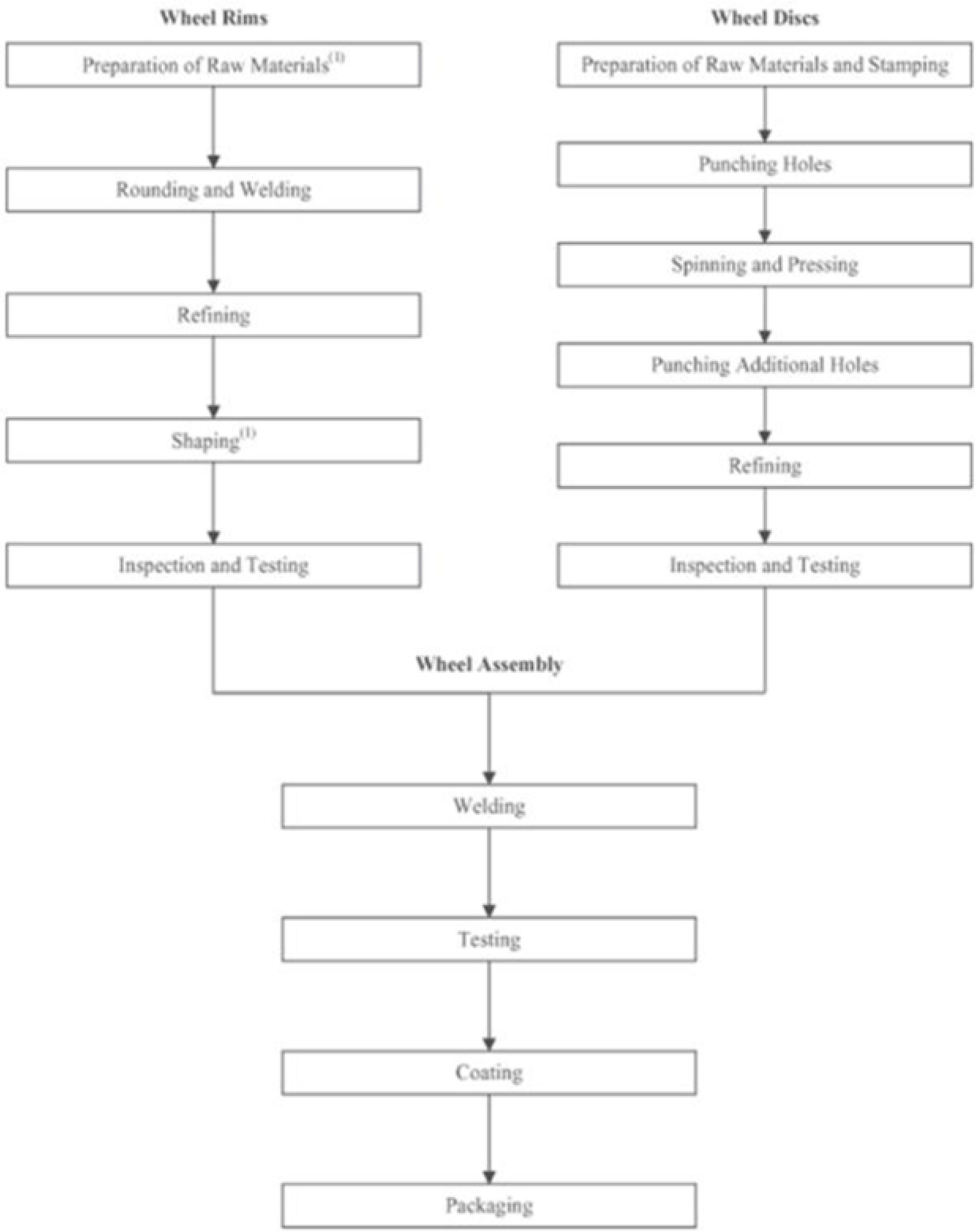
The two principal parts of our steel wheels are a wheel rim, onto which the tire is attached, and a wheel disc which fits into the center of the wheel rim. In addition, our tubed steel wheels use one or more removable metal locking rings attached to the outside edge of a wheel rim so that a tire with inner tube can be mounted. Locking rings are typically assembled to the wheels by our distributors or OEM customers.

Our principal raw materials are steel, as well as other auxiliary materials including welding material, paint and powder coating. We use different types of steel for tubed and tubeless steel wheels. We typically use rim-shaped steel (which we make ourselves using raw steel purchased from our suppliers) for tubed steel wheels and rolled steel plates (i.e., steel which is shaped into plates and rolled in a spool under high heat by the steel manufacturer) for tubeless steel wheels. We have also introduced tubeless steel wheels using rim-shaped steel internally produced by applying our unique patented tubeless steel wheel production method, which provides enhanced strength and durability. Our work-in-progress primarily includes wheel rims, wheel discs and locking rings.

We source our principal raw materials and a majority of locking rings from third-party suppliers and manufacture the remaining wheel components, including rim-shaped steel, wheel rims, wheel discs and the remaining portion of locking rings, internally. We believe that self-producing most of our steel wheel components, in particular rim-shaped steel, enables us to reduce our production costs and production time, ensure timely delivery to meet customers' orders, and also ensure high product quality. In addition, as the largest commercial vehicle wheel manufacturer in the PRC, we have been able to maintain a more than ten-year relationship with our largest steel supplier, Benxi Iron & Steel, from whom we source steel that meets our specific requirements. This allows us to optimize our production process and increase our raw material utilization rate.

*Steps*

Our manufacturing process primarily involves the following steps:




(1) This step differs for tubed steel wheels and tubeless steel wheels as explained below.

Each of the foregoing manufacturing steps is described below:

**Wheel Rims**

Preparation of raw materials: For our tubed steel wheels, we press and roll under high heat raw steel sourced from our steel suppliers to form rim-shaped steel, which is then cut into rectangular slices and used in the production of wheel rims.

For our tubeless steel wheels, we flatten rolled steel plates sourced from our steel suppliers and cut it into rectangular slices (with the edges refined), which is then used in the production of wheel rims. We have also introduced tubeless steel wheels using rim-shaped steel internally produced by applying our unique patented tubeless steel wheel production method, which provides enhanced strength and durability. Please refer to "—Research and Development" below.

Rounding and welding: The rectangular steel slice is rounded to produce a cylindrical sleeve with the two free edges of the sleeve welded together.

Refining: Surface and welded edges of the sleeve are refined and smoothed.

Shaping: For our tubed steel wheels, the sleeve is expanded and compressed into the required circular shape and becomes a wheel rim.

For our tubeless steel wheels, the sleeve is expanded and rolled (as opposed to being compressed, in order to enhance and improve the safety and weight of the wheel rim) into the required circular shape and becomes a wheel rim.

Inspection and testing: The wheel rim is inspected for sizes and undergoes pulsation tests to determine the wheel's ability to roll smoothly on the road.

**Wheel Discs**

Preparation of raw materials: We flatten rolled steel plates sourced from our steel suppliers and stamp the steel to produce multiple rounded plates.

Punching holes: The rounded plate is punched for holes.

Spinning and pressing: The rounded plate is spun and pressed into geometric shape.

Punching additional holes: Additional holes are punched into the edge of the geometric-shaped plate.

Refining: Geometric shape of the plate is refined and the plate becomes a wheel disc.

Inspection and testing: The wheel disc is inspected for its shape and undergoes pulsation tests.

**Wheel Assembly**

Welding: The wheel rim and the wheel disc are welded together to become a wheel.

Testing: The assembled wheel undergoes pulsation and balancing tests.

Coating: The assembled wheel is coated through pre-treatment and painting or powder coating.

Packaging: Wheels are packaged using cartons, wooden pallets or packaging foil based on customers' requirements.

*Design and Production*

We conduct each of the above steps in-house. When we commence production of new products, we design and manufacture different molds, based on different customers' requirements and market needs, which are then used in the production process. Using specialized computer software that enables us to create three-dimensional designs, our highly experienced research and development team can efficiently develop new molds for most types of commercial vehicle wheels. With our industry-leading production scale in the PRC and integrated production process, we are able to manufacture a wide variety of molds and quickly commence commercial production of multiple new wheel models at the same time, which distinguishes us from our competitors. Our integrated production process also increases our production efficiency and reduces our dependence on third-party suppliers. Our design expertise, large production scale and integrated production process enable us to adjust our production quickly to respond to changes in market demand for our products. It generally takes us less than one week to produce our existing products after we receive purchase orders.

We maintain separate production lines for our tubed, tubeless and off-road steel wheels, the production of which primarily involves similar processes as described above but different machinery and equipment, molds and techniques. Our production process satisfies ISO/TS 16949 quality management requirements.

Electricity is the primary utility used in our manufacturing process. We receive our electricity supply from local power grids where our plants are located. To date, we have not experienced any material disruption in electricity and other utilities. We sell scrap steel from our manufacturing process to third parties or recycling stations.

*Techniques and Machinery*

We apply various advanced techniques in our production process, which reduce our production costs and make our wheels superior in terms of strength, durability and/or weight in comparison to the wheels offered by our competitors in the PRC. For example, in the manufacturing of wheel discs, we use a refined and more cost-effective steel cutting technique when stamping the steel. This technique enables us to maximize the number of rounded plates we can stamp from a steel plate, thereby increasing our raw material utilization rate and reducing the amount of scrap steel and in turn our production costs. We also use a spinning and pressing technique when making the plates into a geometric shape. By spinning and pressing the wheel disc instead of simply pressing it into the desired shape, which is the traditional method employed, we can reduce the weight of the wheel disc and amount of steel used without lessening the strength and durability of the wheel disc.

We use various advanced machinery and equipment in our production process, substantially all of which is sourced from PRC machinery and equipment manufacturers. We also imported from Germany an advanced spinning and pressing machine used in the manufacturing of our wheel discs. We are in the process of enhancing the automation of our manufacturing process, which will enable us to increase production efficiency and reduce production costs. Our principal manufacturing machinery and equipment is not difficult to obtain. We have implemented a comprehensive maintenance system for our machinery and equipment. To date, we have not experienced any material or prolonged interruptions of our machinery or equipment due to its failure.

***Aluminum Wheel Manufacturing Facility in the PRC***

We anticipate that commercial vehicles will increasingly use wheels made of aluminum instead of steel in the future, and we have completed the construction of an advanced aluminum wheel manufacturing facility (including offices, a research and development center, a test center and employee dormitories) with an aggregate land area of approximately 65,000 square meters in Zhangzhou, Fujian Province. We have obtained land use rights for this manufacturing facility and in the process of applying for property ownership certificates. We have obtained substantially all of the necessary machinery and equipment and are in the process of upgrading a specialized production process designed for manufacturing aluminum wheels for commercial vehicles, conducting research and development, procuring raw materials and recruiting additional industry experts in order to ramp up our aluminum wheel production. We believe we are well positioned to enter the aluminum wheel market, and by developing different types of high quality aluminum wheels and being an early market entrant, we believe that we will be well positioned to capture future growth in the market for aluminum wheels in the PRC as it emerges and also to enter selected international markets over time.

**Sales and Marketing**

We have a diversified customer base. We offer our products to end-users in the aftermarket in the PRC through our nationwide distribution network. As of December 31, 2016, such network consisted of more than 3,799 distributors in the PRC, including 23 tier-one distributors, 2,461 exclusive tier-two distributors and 1,315 non-exclusive tier-two distributors, throughout the PRC. We also sell our products directly to OEMs in the PRC. PRC aftermarket sales accounted for 49.9%, 48.8% and 45.4% of our revenue in 2014, 2015 and 2016, respectively. PRC OEM sales accounted for 34.6%, 33.3% and 38.1% of our revenue in 2014, 2015 and 2016, respectively.

In addition, we sell our products outside the PRC to both international distributors in the aftermarket and directly to international OEMs, primarily in Thailand and more than 27 other countries worldwide. International sales accounted for 15.5%, 17.9% and 16.5% of our revenue in 2014, 2015 and 2016, respectively.

In 2014, 2015 and 2016, the aggregate sales to our five largest customers accounted for 18.8%, 17.7% and 18.0% of our revenue, respectively.

We have a dedicated sales and marketing team, which had 252, 235 and 235 employees as of December 31, 2014, 2015 and 2016, respectively, responsible for the sales and marketing of our products and managing and supporting our distributors. We believe that the combination of our extensive distribution network and our effective management of such network provides us with the broadest coverage among PRC commercial vehicle wheel manufacturers, which has contributed to our leadership position in the PRC aftermarket and presents a significant barrier to entry in that market.

***Domestic Sales***

*Aftermarket Sales*

Our products are sold to end-users in the aftermarket in the PRC as replacements for worn out or lower quality wheels through our nationwide distribution network which covers all provinces, autonomous regions and municipalities in the PRC and includes various distributors, retail stores and repair and maintenance shops. In addition to selling our products, these distributors typically also sell other automotive components. End users in the aftermarket typically focus on wheel manufacturers' product quality, value for money, brand reputation, technology and ability to develop new products, delivery timeliness, after-sales service and customer relationships.

We believe that our extensive distribution network provides us with a distinct competitive advantage over our competitors because it enables us to: (i) reach end-users across China in a cost-effective manner, thereby increasing our penetration of the fragmented PRC aftermarket, (ii) closely monitor market trends and end-user preferences, enabling us to swiftly meet end-user demands and (iii) lower our logistics costs as we can get our products to end-users quickly and efficiently through our distributors.

As of each of December 31, 2014, 2015 and 2016, we had 23 tier-one distributors with whom we have direct contractual relationships. In turn, these tier-one distributors sold our products to 4,351, 4,164 and 3,776 tier-two distributors as of December 31, 2014, 2015 and 2016, respectively. Tier-two distributors are divided into exclusive and non-exclusive distributors, depending on whether they only sell steel wheels manufactured by us. The number of our tier-two distributors decreased from 2014 to 2016 primarily as a result of the economic slowdown. The following table sets forth the total number of our tier-one, exclusive tier-two and non-exclusive tier-two distributors in the PRC as of December 31, 2014, 2015 and 2016, respectively:

| | As of December 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2016 |
| Tier-one | 23 | 23 | 23 |
| Exclusive tier-two | 2,857 | 2,741 | 2,461 |
| Non-exclusive tier-two | 1,494 | 1,423 | 1,315 |
| Total | 4,374 | 4,187 | 3,799 |

We generally select our tier-one distributors based on business reputation, size, industry and sales experience, quality of the management team, and prior sales performance, and enter into annual distribution agreements with our tier-one distributors which are renewed automatically every year unless terminated by the parties. Pursuant to our contractual arrangements, (i) our tier-one distributors may not distribute any other commercial vehicle wheel manufacturer's products, (ii) our tier-one distributors generally cover particular regions and may not distribute our products outside their respective regions, (iii) we set sales targets for our tier-one distributors and generally provide sales incentives or raise credit limits if the sales targets are met or exceeded by our tier-one distributors, (iv) our tier-one distributors are required to provide us a credit deposit typically equal to approximately one-month of indicative annual purchase amount, and depending on the actual sales amount, we typically provide our tier-one distributors a credit term of 45 to 55 days from the receipt of our invoice after product delivery and (v) our tier-one distributors are typically required to comply with all applicable laws and regulations in distributing our products. We conduct annual evaluations of our tier-one distributors.

We enter into a three-party distribution agreement with each exclusive tier-two distributor and the tier-one distributor covering the particular locale in which the exclusive tier-two distributor is located for a one-year term which is renewed automatically every year unless terminated by the parties. These agreements enable us to directly interact with and monitor our exclusive tier-two distributors while at the same time maximize our efficiency by delegating certain management oversight of our tier-two distributors to the relevant tier-one distributors. Pursuant to our contractual agreements, (i) our exclusive tier-two distributors may not distribute any other commercial vehicle wheel manufacturer's products, (ii) our exclusive tier-two distributors generally cover particular regions and may not distribute our products outside their respective regions, (iii) tier-one distributors set sales targets for our exclusive tier-two distributors and generally provide sales incentives or raise credit limits if the sales targets are met or exceeded by our exclusive tier-two distributors and (iv) our exclusive tier-two distributors are typically required to comply with all applicable laws and regulations in distributing our products. In order to better enhance our brand recognition, exclusive tier-two distributors display signage and posters bearing our "Zhengxing" brand name and logo and follow decoration and product display standards based on our requirements, with the relevant expenses paid by us. We and our tier-one distributors conduct annual evaluations of our exclusive tier-two distributors.

Although we do not have contractual agreements with our non-exclusive tier-two distributors, we require our tier-one distributors to enforce our sales and return policies, guidelines and procedures on the non-exclusive tier-two distributors. Non-exclusive tier-two distributors can distribute other commercial vehicle wheel manufacturer's products, although in practice, certain of our tier-two distributors voluntarily sell our products on an exclusive basis. Any non-compliance with our guidelines by non-exclusive tier-two distributors will be the responsibility of the relevant tier-one distributors.

Our sales and marketing team monitors, manages and supports the activities of our tier-one distributors and exclusive tier-two distributors to ensure that they comply with our sales guidelines, policies and procedures, and contractual arrangements. Our sales and marketing team regularly visits and inspects distributors, including their inventory levels, and assists and resolves any problems encountered by them. In addition, we provide periodic training to our tier-one distributors and principal exclusive tier-two distributors to impart product-related knowledge and information as well as to improve their sales and marketing skills.

*OEM Sales*

We also sell our products directly to OEMs in the PRC for use on their commercial vehicles. We had 84 OEM customers as of each of December 31, 2014 and 2015 and 82 OEM customers as of December 31, 2016. The number of our OEM customers in the PRC remained steady from 2014 to 2016. Our OEM customers include the group members of a number of large PRC commercial vehicle manufacturers such as SAIC-IVECO Hongyan Commercial Vehicle, BeiqiFoton Motor, Baotou Bei Ben Heavy-Duty Truck, Zhengzhou Yutong, FAW Jiefang Automotive, Dongfeng Motor, Anhui Jianghuai Automobile Group and China National Heavy Duty Truck Group. When selecting wheel suppliers, OEM customers typically look at factors such as price, product quality (and typically require suppliers to provide product test reports issued by a recognized test center), technology and ability to develop new products that meet their specifications, production scale, delivery timeliness, after-sales service and customer relationships.

Our existing OEM customers typically give us their product specifications and ask us to provide samples. When developing new vehicle models, our OEM customers will usually notify us of their plans and ask us to develop new wheel designs to meet their new requirements. Our sales and marketing team also provides samples of our products to existing OEM customers when we develop new wheel models. After we receive confirmation from the OEM customers that the samples of our products are acceptable to them, we will produce a small amount of the product for test use. Upon satisfactory completion of the test use, we typically enter into framework agreements with our OEM customers, which are renewed every year upon mutual agreement unless terminated by the parties, and commence mass production. This process typically takes about six months. In addition, our sales and marketing team proactively contacts and visits new OEMs to introduce our products to them and to develop new customer relationships. On occasion OEMs who are not our customers will initiate contact by requesting product samples from us.

Our framework agreements with OEM customers generally set a price, which is subject to periodic revision based on the market price of steel. OEM customers, pursuant to the framework agreements, then periodically place orders which specify the amount of purchases desired. The framework agreements do not contain minimum purchase requirements. Depending on the sales amount, we typically provide our OEM customers in the PRC a credit term of 55 to 75 days from the receipt of our invoice after product delivery and, in 2014, we extended credit terms to 90 days to alleviate the stress of some of our OEM customers.

We have long-term business relationships with most of our OEM customers, and to date we have not had any material disputes with our OEM customers. In addition, we have been strengthening, and will continue to strengthen, our relationships with leading commercial vehicle OEMs by becoming their preferred wheel supplier by, among other things, utilizing our nationwide distribution network to provide aftermarket sales service and support to end-users for OEM customers across the PRC. We believe this (i) benefits OEMs because end-users generally prefer commercial vehicles that can be easily serviced at a variety of locations and (ii) leads to high brand awareness of our products among end-users in the aftermarket, resulting in some end-users requesting that our wheels be used on the OEMs' vehicles at the time of purchase. In addition, we have been enhancing, and will continue to enhance, our research and development capabilities in order to continue to develop products meeting the specific requirements and changing needs of our PRC OEM customers. Furthermore, we will continue to leverage the strategic locations of our nationwide manufacturing facilities to further improve our ability to promptly meet the demands of our PRC OEM customers. We believe that maintaining strong relationships with multiple OEMs will enable us to acquire additional market share in the PRC OEM market and fully benefit from the ongoing trend of OEMs increasingly outsourcing the production of commercial vehicle wheels.

***International Sales***

Our international sales include sales to international distributors which resell our products to OEMs and retail stores, repair and maintenance shops or end-users in the aftermarket, and direct sales to international OEMs. In addition to selling our products, these distributors, retail stores and repair and maintenance shops also typically sell other automotive components. We had 74, 81 and 82 international distributors and 5, 5 and 5 OEM customers as of December 31, 2014, 2015 and 2016, respectively, including Tokyo Sharin of Japan, Eicher Motors Limited, Fuwa Engineering(s) Pte Ltd, York Transport Equipment (Asia) Pte Ltd and Tata Daewoo Motor of South Korea. Thailand is our largest international market in 2014, 2015 and 2016, representing 2.3%, 2.3% and 2.1% of our revenue in 2014, 2015 and 2016, respectively.

We also export to more than 28 countries worldwide, including Thailand, India, South Korea and Indonesia. We have been increasing our sales and marketing efforts in select countries in Asia and the Middle East which we believe present attractive market opportunities. In North America and Europe, we focus on partnering with local distributors to increase our sales in the aftermarket as well as to OEMs to establish our brand name in those markets.

We typically procure sales to international distributors and OEMs through participation in various exhibitions, trade shows and seminars for the automotive industry. The selection criteria for international distributors are similar to those for domestic distributors. We enter into strategic cooperation agreements with our ten largest international customers (including distributors and OEMs) which are renewed every three years upon mutual agreement unless terminated by the parties, pursuant to which such customers place orders from time to time that specify the actual price and amount of purchases. These strategic cooperation agreements provide that we are the preferred wheel supplier of these international distributor or OEM customers. We do not have strategic cooperation agreements with our other international distributor or OEM customers, who place orders with us from time to time pursuant to standalone purchase orders. We typically provide our international distributor and OEM customers a credit term of 30 days from the receipt of our invoice after product delivery. For certain new international customers, we require payment of the entire purchase price at the time of purchase. Our sales and marketing team periodically visits our international distributors to ensure that they comply with our sales guidelines, policies and procedures and to provide relevant support.

***Product Delivery***

We generally deliver our products to tier-one distributors and OEM customers in the PRC by truck or by train. We pay the cost of transporting our products to our customers and include such transportation cost in the prices of our products. We make international deliveries primarily by sea. Our export contracts are usually entered into on a Free On Board (FOB) basis, which means that we pay for shipping of the goods to the port of shipment, plus loading costs. Our customers pay freight, insurance, unloading costs and shipping from the port of destination to the factory.

We outsource the delivery of our products to reputable transportation service providers, and on behalf of our international customers, we engage a number of shipping agents to transport our finished products overseas. Our strategically located manufacturing facilities in different regions of China enable us to lower product delivery transportation costs, reduce transit time and satisfy the needs of our customers promptly, which distinguish us from our competitors. To date, we have not experienced any material backlogs or delays in meeting customer orders.

***Pricing***

We determine the prices of our products on the basis of market supply and demand and adjust such prices from time to time based on the prices of our raw materials, particularly steel. Because of our leading market position and the strong demand for our products, we believe we generally are able to set the prices of our products at a premium and pass on any significant increases in our raw material costs to our customers. Also, as wheels generally extend the useful lives of tires, which are usually more expensive than wheels, we believe that wheels are typically less subject to downward price pressure by end-users and end-users are usually willing to pay higher prices for high-quality wheels, like ours, thus strengthening our ability to set the prices of our products. In addition, we generally reduce the selling prices of our products when there are significant decreases in our raw material costs.

***Warranty***

In line with market practice, we do not provide exchanges or returns of our products. For our products sold to OEMs in the PRC, we allow them to deduct an amount (typically equal to or less than 1.0% of the total invoice amount) from the invoice amount we charge which can be used to cover any defective products. For our PRC aftermarket sales, our tier-two distributors typically provide end-users with product exchanges or returns for defective products within a three-month warranty period. Upon an exchange or acceptance of a return of a defective product, two-tier distributors will either exchange the defective product with, or return the defective product to, their tier-one distributors, or deduct an amount from the invoice payable to their tier-one distributors, depending on their arrangements with the particular tier-one distributors.

We also do not provide any warranty for our products sold to international customers, and we do not provide exchanges or returns of our products for these customers.

***Marketing***

Our sales and marketing team markets and promotes our brands and products. In the PRC, most of our products are sold under our “Zhengxing” and “Zhengxing Prince” brands, which we use for our more advanced wheels with higher specifications in terms of strength, durability, weight and other factors. We also sell less complex, lower cost products under our “Haixia,” “Zhengchang,” and “Lianxing” brands. In the international markets, most of our products are sold under our “CZX” brand.

In the PRC, our sales and marketing team regularly visits our distributors to better understand the needs and requirements of the end-users and any new market trends. We also regularly visit OEM customers to better understand their operations, needs and requirements and to introduce our new products. In addition, we participate in various exhibitions, trade shows and seminars for the automotive industry to promote and market our products to new customers. Our marketing efforts include advertising on billboards and in automotive magazines and distributing product brochures and product-related gifts such as T-shirts, posters and calendars to our customers and end-users. Generally, we are responsible for our marketing costs, and our distributors typically cooperate with us in conducting our marketing and promotional activities.

In the international markets, our marketing efforts primarily consist of periodic visits to our distributors and OEM customers and participation in various exhibitions, trade shows and seminars for the automotive industry.

In addition, we maintain a customer service hotline for our customers and end-users to respond to their inquiries and feedback on our products.

**Research and Development**

We are committed to the research and development of new models of wheels as well as ongoing enhancements in existing product quality and production technology, in order to effectively adapt to the changing demands of our customers for better quality wheel products, as well as to improve our production efficiency. We have established strong research and development capabilities which are an important competitive factor in the commercial vehicle wheel industry, particularly for OEM customers who prefer to work with vehicle wheel manufacturers that can quickly develop safe, strong, durable and/or light-weight wheels meeting their specifications.

We believe that we maintain one of the largest skilled teams of research and development engineers and technicians in the commercial vehicle wheel industry in the PRC. As of December 31, 2014, 2015 and 2016, our research and development department had 329, 286 and 284 employees, respectively, most having 10 to 20 years of experience in the industry. In particular, our chief technology officer, Mr. Guohe Zhang, who leads our research and development team, has over 40 years of research and production technology management experience in the commercial vehicle wheel and machinery industry in the PRC.

We conduct substantially all of our research and development efforts internally and also collaborate with leading industry experts in the PRC and internationally. Our research and development efforts currently focus on the development of new models of steel wheels, and we have developed and commercialized approximately 102, 95 and 57 new models of steel wheels in 2014, 2015 and 2016, respectively. We also focus on making ongoing enhancements in existing product quality and production technology so as to improve, among other things, the safety, strength and balance, and reduce the weight (and thus improve fuel efficiency), of our products, and reduce the overall cost of our production process, as well as to further automate our manufacturing process. For example, we have developed a tubeless steel wheel production method that is patented and unique, whereby we can produce tubeless steel wheels which have enhanced strength and durability by applying certain manufacturing processes traditionally only used for tubed steel wheels. Under this patented method, we use rim-shaped steel (which we make from raw steel by pressing and rolling it under high heat), instead of rolled steel plate, as the raw material, and we apply compression, instead of rolling, at the stage of shaping. Please also refer to "—Production Process" above. We first commercialized tubeless steel wheels using this innovative production method in 2008. We are also in the process of using this patented method to develop light-weight tubeless steel wheels. Moreover, we have developed a new type of energy-saving and environmentally friendly "Tulou Steel wheel" wheel and aluminum wheel for various types of vehicles such as high-end minibuses. In addition, we are conducting research and development of commercial vehicle wheels made of aluminum.

Our research and development team works closely with our sales and marketing team which collects requests regarding new wheel products and feedback on product quality and improvements from our distributors and OEM customers. We intend to continue further enhancing our existing research and development efforts.

We maintain a well-equipped research and development center at our headquarters in Zhangzhou, Fujian Province and at our manufacturing facilities in Langfang, Hebei Province and Hefei, Anhui Province, and perform all of our research and development activities in-house. In addition, we utilize advanced techniques in our product research and development, such as specialized computer software that enables us to create three-dimensional designs for the development of new types of wheels.

Furthermore, at our headquarters in Zhangzhou, Fujian Province, we have maintained one of the national wheel test centers designated by the PRC government for the testing of the specifications and roadworthiness of wheels sold in the PRC since September 2008. This test center has been granted ISO/IEC 17025 certification. It enables us to quickly test our new products onsite, thereby shortening our product development cycle to less than 30 days, which we believe is significantly less than that of our competitors. This test center also assists our penetration of the OEM market because OEMs typically require test certifications demonstrating that the wheels they use meet or exceed industry standards.

**Intellectual Property**

We have developed a large portfolio of intellectual property rights in the PRC to protect the technologies, inventions and improvements significant to our business, and we believe that this is important in order for us to maintain a competitive advantage in the marketplace.

As part of our commitment to research and development, we have amassed a large patent portfolio covering all three types of patents, namely invention, utility model and design patents, through internal development. As of December 31, 2016, we owned a total of 83 patents in the PRC, including 4 invention patents, 73 utility model patents and 6 design patents. The benefits of our patented technology include, among other things, improving the performance of our wheels and increasing the utilization of raw materials. In particular, our four invention patents relate to enhancing the performance of our wheels and thus extending the useful lives of tires. In addition, as of December 31, 2016, we had registered 539 trademarks with China's Trademark Office, and are currently in the process of applying for 4 additional trademarks in the PRC. Through the Madrid System for the International Registration of Marks, we have registered two trademarks each with one jurisdiction in the United States and South Korea, respectively. We also have three registered trademarks in Taiwan and one registered trademark in the Special Administrative Region of Hong Kong. These trademarks are primarily related to the name and logo of our company. In 2005, "Zhengxing" was recognized as a "PRC Famous Trademark."

We rely primarily on intellectual property laws and contractual arrangements with our employees and others to protect our intellectual property rights. We have entered into agreements with most of our executive officers and employees involved in technology and research and development, under which intellectual property during their employment belongs to us, and they waive all relevant rights or claims to such intellectual property. Generally, our executive officers and employees involved in technology and research and development are also bound by a confidentiality obligation, and have agreed to disclose and assign to us inventions conceived by them during their term of employment. While we actively take steps to protect our proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of our intellectual property. The counterparties to our confidentiality agreements may not follow such agreements, or our confidentiality agreements may not be enforceable or provide an adequate remedy in the event of an unauthorized use or disclosure. Infringement or misappropriation of our intellectual property could harm our business and competitive position. Please refer to Item 3D "Key Information—Risk Factors—Risks Relating to Our Business and Industry—Our patents, trademarks and other intellectual property are important assets for our business, and if we are unable to protect them, or if other parties claim we are infringing their intellectual property, then our business, financial condition, results of operations and prospects may be materially and adversely affected." PRC patent and trademark laws are discussed in greater detail in "—Regulations—Other Regulations Relevant to Our Operation" below.

Our competitors are also developing and seeking patent protection for technologies in connection with the manufacturing of wheels. We expect these competitors to continue to take steps to protect these technologies, including seeking patent protection. There may be patents issued or pending held by others that cover significant parts of our technology or business methods. Disputes over rights to these technologies may arise in the future. We cannot be certain that our products do not or will not infringe valid patents or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others, as discussed in Item 3D "Key Information—Risk Factors—Risks Relating to Our Business and Industry—Our patents, trademarks and other intellectual property are important assets for our business, and if we are unable to protect them, or if other parties claim we are infringing their intellectual property, then our business, financial condition, results of operations and prospects may be materially and adversely affected."

To date, we have not been a party to any material intellectual property claim. We are not aware of any proceedings concerning, and are not aware of any material claims or infringements of, any intellectual property rights that may be threatened or pending, in which we may be involved whether as a claimant or respondent.

**Quality Control and Assurance**

We place great emphasis on quality control in our operations and have implemented quality control procedures throughout our production process to ensure consistent product quality that meets our quality control standards and policies. Our products are also subject to customized quality requirements of our customers. Our quality control department works closely with our technology and manufacturing departments to carry out our quality control procedures. Our senior management team is also actively involved in setting our quality control policies.

We have established a comprehensive quality management system from procurement to delivery in accordance with ISO/TS 16949 quality management requirements for our operations. Our comprehensive quality management system has been awarded ISO/TS 16949 quality management system certification since 2007, which certifies the satisfaction of specific quality management system requirements for the design and development, production and, when relevant, installation and service of automotive-related products, and ISO 9001:2000 quality management system certification from 2003 to 2006, which certifies the satisfaction of specific quality management system requirements for an organization to consistently provide products that meet customer and applicable regulatory requirements. In addition, as describe above under "—Research and Development," at our headquarters in Zhangzhou, Fujian Province, we have maintained one of the national wheel test centers designated by the PRC government for the testing of the specifications and roadworthiness of wheels sold in the PRC since September 2008. This test center has been granted ISO/IEC 17025 certification, which certifies the satisfaction of the general requirements to carry out tests and/or calibrations. We source substantially all of our principal test equipment from PRC suppliers. In addition, representatives of our tier-one distributors, OEM customers and international distributors and OEMs periodically inspect our manufacturing facilities and quality management system.

Our quality control procedures primarily consist of the following:

- **Raw material inspection:** We purchase our principal raw materials from selected reputable suppliers (generally in terms of product quality, prices, production capabilities and management) and conduct periodic evaluations of our principal suppliers. All raw materials delivered by suppliers to us are inspected before acceptance to ensure that they comply with our raw material standards.
- **Process control:** We have implemented various quality control measures (including conducting various tests such as pulsation and balance tests and inspections of sizes) in each of the key stages of our production process.
- **Product inspection:** We examine our finished products for defects.
- **Periodic functionality tests:** Based on the requirements of our customers, we conduct periodic functionality tests of our products, including radial fatigue tests, bending fatigue tests, welding strength tests and material inspection.

In addition, in conjunction with the expansion of our production capacity, we improve our production efficiency and operational effectiveness by, among other things, implementing advanced management systems designed to improve performance, such as lean manufacturing techniques and six-sigma quality control processes. We have commenced training for our employees of six-sigma quality control processes and are gradually implementing such processes to our business operations.

**Suppliers and Procurement**

As the largest commercial vehicle wheel manufacturer in the PRC, we are able to develop strong relationships with our suppliers and obtain our key raw materials and supplies at competitive prices. We source almost all of our raw materials from suppliers in the PRC.

Our principal raw material is steel (including raw steel which we make into rim-shaped steel and rolled steel plates) which accounts for substantially all of our total raw material requirements. We purchase steel from a limited number of selected reputable suppliers in the PRC. We generally enter into framework agreements with our steel suppliers which typically set a total purchase amount, pursuant to which we place orders from time to time. These agreements typically have a one-year term and are renewed every year upon mutual agreement. The actual purchase price and amount of steel vary from order to order. Prices of steel are subject to fluctuation depending on supply and demand in the market, and we are generally able to purchase steel at prices slightly lower than the prevailing market prices because of our large volume of purchases. In addition, we purchase steel which meets our specific requirements from our primary steel supplier, Benxi Iron & Steel, allowing us to optimize our production process and increase our raw material utilization rate. Unlike our Company, certain of our competitors in the PRC, which operate on a relatively smaller scale, often may need to buy steel with standard specifications indirectly through distributors, which may increase their costs and decrease their raw material utilization rate.

Our other raw materials include welding material, paint and powder coating, and we purchase such auxiliary materials from multiple suppliers which are easily replaceable. In addition, we also purchase a majority of our locking rings used in the production of tubed steel wheels from a limited number of suppliers. We do not have annual framework agreements with suppliers of our auxiliary materials and locking rings and generally place orders for these materials from time to time.

In line with market practice, we typically make full prepayment at the time of purchase to the suppliers of our steel. Our suppliers of other auxiliary materials including welding material, paint and powder coating and our suppliers of locking rings typically provide us a credit term of 30 to 35 days and a credit term of 50 to 60 days, respectively. We have long-term business relationships with most of our principal suppliers. For example, we have a more than ten-year relationship with Benxi Iron & Steel, our primary steel supplier. To date, we have not had any material disputes with our suppliers.

We manage our inventory levels by monitoring in real time our production activities and incoming sales orders and also taking into consideration market prices of the raw materials, particularly steel. Based on this, we assess our requirements for raw materials and locking rings, and place orders with suppliers accordingly. We typically maintain approximately one to two months' supply of steel, approximately one month's supply of other auxiliary materials and less than one month's supply of locking rings.

We have been dependent on a limited number of suppliers for a significant portion of our raw material and locking ring requirements. In 2014, 2015 and 2016, the aggregate purchases from our five largest suppliers accounted for 75.3%, 75.4% and 77.4% of our total raw material and locking ring costs, respectively. Purchases from one of our largest suppliers, Benxi Iron & Steel, for the same periods accounted for 36.0%, 35.3% and 19.3% of our total raw material and locking ring costs, respectively. Although there are alternate steel suppliers in the market, because we have optimized our manufacturing process to rely on the steel of our established key suppliers (especially Benxi Iron & Steel), which meet certain specifications, any disruption in steel from those suppliers may disrupt our manufacturing operations until we can secure appropriate steel from other suppliers. We believe that we will continue to purchase a significant portion of our raw materials and locking rings from a limited number of suppliers. Please refer to Item 3D "Key Information—Risk Factors—Risks Relating to Our Business and Industry—We rely on a limited number of key suppliers for steel, our key raw material, and certain components required for our production" and "—We are subject to risks associated with the volatile prices and availability of raw materials and utilities."

**Competition**

The market for commercial vehicle wheels, especially the OEM market, is characterized by intense competition among multiple vehicle wheel manufacturers, with competition based on a number of factors. The key competitive factors in the aftermarket are product quality, product diversification, brand reputation, technology and ability to develop new products, delivery timeliness, after-sales service and customer relationships. In the OEM market, the same factors apply, except that OEMs are relatively more concerned with production scale rather than product diversification or brand reputation. We believe that our competitive advantages include economies of scale, high product quality and brand recognition, comprehensive product offerings, strong research and development abilities, nationwide strategic locations of our manufacturing facilities and nationwide coverage of our distribution network, which have enabled us to achieve our leadership position in the commercial vehicle wheel market in the PRC and to establish a strong presence internationally.

In the PRC market, we primarily compete with companies such as Shandong Xingmin Wheel, Dongfeng Motor Wheel, Changchun FAWAY Automobile Components, Xiamen Sunrise Wheel and Alcoa Inc. In the international market, we primarily compete with various local wheel manufacturers at each of our sales region. In addition, there is increasing consolidation within the commercial vehicle wheel industry in the PRC. We believe that with our leadership position in the commercial vehicle wheel industry in the PRC, we are well positioned to lead or participate in this industry consolidation which may further strengthen our leading market position. Nevertheless, if we fail to maintain or increase our market share, this consolidation in our industry could cause our competitors to develop advantages over us in their available capital, per-unit cost in manufacturing operations, purchasing power with suppliers, pricing power with customers, scale of distribution network, brand recognition and other factors that could adversely affect our business, financial condition, results of operations and prospects.

Other types of commercial vehicle wheels, such as aluminum wheels, also compete with our products. We began offering our own aluminum wheels at the end of 2013, but we have limited experience in the production and sales of such wheels on a commercial scale. Please refer to Item 3D "Key Information—Risk Factors—Risks Relating to Our Business and Industry—Our product development efforts may not result in successful new products that meet changing market demands. In particular, our plans to launch new aluminum wheel products may not be successful."

**Environmental Matters and Safety**

Our production process primarily generates and discharges waste water, waste gas, noise and solid waste. We have adopted various policies and implemented various measures to treat and process such waste and to ensure our compliance with applicable environmental laws and regulations. We sell certain of our solid waste such as scrap steel to third parties or recycling stations.

We are required to comply with applicable PRC national and local environmental protection laws and regulations, and our operations are subject to periodic inspection by national and local environmental protection authorities. PRC national and local environmental laws and regulations impose fees for any discharge of waste materials above prescribed levels and fines for any serious violation, and provide that the relevant authorities may at their own discretion shut down or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage. To date, we have not been subject to any material fines, suspension orders or other administrative actions from the PRC environmental authorities, and we believe that we are currently in compliance with all applicable environmental regulations and standards in all material respects. We are not aware of any pending or threatened environmental investigation, proceedings or action by any governmental agency or other third party.

We have adopted various policies and implemented various measures to ensure health and safety in our manufacturing facilities. We require that our employees comply with such policies and measures and also provide training to our new employees and periodic training to our employees. To date, our manufacturing facilities have not encountered any material unplanned work stoppages due to health and safety issues. We have complied with applicable PRC laws and regulations on health, safety and other relevant administrative regulations issued by the local governments in the regions where we operate. To date, we have not been subject to any material fines, orders or administrative actions involving non-compliance with these laws and regulations relating to any of our existing manufacturing facilities.

**Insurance**

We maintain property insurance to cover our fixed assets. We do not have product liability insurance coverage for our products. We do not carry liability insurance that extends coverage to all potential liabilities that may arise in the ordinary course of our business, and we do not maintain any insurance coverage for business interruption. We do not maintain key-man life insurance for our executive officers or employee liability insurance.

Although we consider our insurance coverage to be adequate and in line with our industry practice, our insurance coverage, however, may still not be sufficient to cover damage to our fixed assets. Please refer to Item 3D “Key Information—Risk Factors—Risks Relating to Our Business and Industry—We may suffer uncompensated losses from events that disrupt our operations because we do not have adequate insurance.” To date, we have not made or been subject to any material insurance claims.

**Regulations**

We operate our business in the PRC under a legal regime consisting of the laws enacted and adopted by the National People’s Congress of the PRC, or the NPC, and its Standing Committee, the administrative regulations promulgated by the State Council, the highest executive branch of the PRC government and the ministerial decrees adopted by several ministries and agencies directly under the State Council’s authority including, among others, the National Development and Reform Commission of the PRC, or the NDRC, the Ministry of Transport of the PRC, or the MOT, the MOFCOM, and the SAFE, and local rules promulgated by local governmental authorities at different levels. The following summarizes all material PRC laws and regulations that are relevant to our business.

**Regulations on Automotive Components Industry**

***General Policies on Automotive Industry***

The Policy on Development of the Automotive Industry, or the Automotive Development Policy, was promulgated by the NDRC on May 21, 2004 and became effective on May 21, 2004.

The Automotive Development Policy contains provisions relating to, among other things, technology policies, structure adjustments, market entry requirements, trademark usage, product development, spare parts sales, distribution networks, investment administration, customs administration and automobile consumption of automotive industry. The main objective of Automotive Development Policy was to develop the PRC automotive industry and make China a major automotive manufacturing country by 2010.

Under the Automotive Development Policy, a series of favorable policies were released to encourage technology innovation by automotive components manufacturers and to attract social capital to automotive components industry to enhance competitiveness and expand production capacity of automotive components manufacturers with leading market positions. Automotive components manufacturers that are deemed as international manufacturers or are able to provide a full range of products to multiple auto makers are entitled to more favorable treatment in several aspects, including technology importation, technology improvement, financing and merger and acquisition.

***Regulations on Quality Control of Automotive Components***

The Circular on Further Enhancing the Automobile Sales and Quality Control of Automotive Components Manufacturing, or the Quality Control Circular, was jointly promulgated by the SAIC, the MOT and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC on July 26, 2010. The Quality Control Circular authorizes local branches of the SAIC, the MOT, and the General Administration of Quality Supervision, Inspection and Quarantine to jointly establish an automotive component tracing system to enhance supervision on manufacturing, distribution and usage of automotive components.

Under the Quality Control Circular, local branches of the SAIC are required to enhance their inspection of packaging, branding and quality of automotive components in the market, in particular, branded automotive components in distributors' stores. A penalty may be imposed on the distributor of the automotive components if any such product bears no signs of the manufacturer's information, product name, name of distributor or quality certificate, or is not in compliance with the quality standard under applicable laws.

*Product Liability*

Under PRC laws, manufacturers and vendors of defective products in the PRC may be liable for loss and injury caused by such defective products. In accordance with the General Principles of the Civil Law of the PRC promulgated by the NPC on April 12, 1986, manufacturers and vendors of a defective product which causes property damage and/or personal injuries to any person are subject to civil liability for such damage and/or injuries.

The Product Quality Law of the PRC, or the Product Quality Law, was promulgated by the Standing Committee of the NPC on February 22, 1993, as amended on July 8, 2000. Under the Product Quality Law, manufacturers who produce defective products are subject to civil and criminal liability and may have their business licenses revoked.

The Law of Protection of the Rights and Interests of Consumers, or the Consumers Protection Law, was promulgated by the Standing Committee of the NPC on October 31, 1993, and became effective on January 1, 1994. The Consumers Protection Law provides further protection to the legal rights and interests of consumers in connection with their purchase or use of goods and services. All business operations must observe and comply with the Consumers Protection Law when selling goods and offering services.

The Tort Law of the PRC, or the Tort Law, was promulgated by the Standing Committee of the NPC on December 26, 2009 and became effective on July 1, 2010. The Tort Law establishes a separate chapter regarding product liability. Compared to other laws and regulations in relation to product liability, the Tort Law expressly provides that, in the event a defective product causes death or serious personal injury and the entity that manufactures and distributes such defective products has knowledge of the existence of such defects, such entity may be sued for punitive damages.

**Other Regulations Relevant to Our Operation**

*Company Law*

The Company Law of the PRC was promulgated by the Standing Committee of the NPC on December 29, 1993 and became effective on May 1, 1994 and was amended on December 25, 1999, August 28, 2004 and October 27, 2005. On December 28, 2013, the Standing Committee of the NPC further amended the Company Law, which came into effect on March 1, 2014.

Under the Company Law, the term "company" refers to a limited liability company or a joint stock limited company established within the PRC in accordance with the Company Law. Shareholders of a company are only responsible for the company or to the company's creditors to the extent of the capital contributions they have made or the number of shares they have subscribed. The shareholders of a company are entitled to enjoy the capital proceeds, participate in making important decisions, including choosing managers.

In accordance with the Company Law, the registered capital of a limited liability company is the total amount of the capital contributions subscribed by all the shareholders that have registered with the SAIC or its local counterparts. The capital contributions can be made in cash or in kind, intellectual property, land use rights and other non-cash properties which can be evaluated in currency and transferred in accordance with the law, except for properties prohibited by laws and administrative regulations to be used for capital contribution.

*Wholly Foreign-Owned Enterprise Law*

The Law of the PRC on Wholly Foreign-Owned Enterprises, or the WFOE Law, was promulgated by the NPC on April 12, 1986 and amended on October 31, 2000. The Implementation Regulation of the WFOE Law was promulgated on December 12, 1990, as amended on April 12, 2001 and February 19, 2014. The ratio between the registered capital of a WFOE and total amount of investment in it needs to meet certain threshold under the relevant regulations of the PRC, and the difference between its registered capital and total amount of investment will be the amount of foreign exchange loans that the WFOE is permitted to borrow from its foreign investor.

*Property*

The properties that we lease and own in the PRC are subject to the Law of the PRC on Property, or the Property Law, which was promulgated by the Standing Committee of the NPC on March 16, 2007 and became effective on October 1, 2007. Under the Property Law, any creation, modification, transfer or termination of property rights becomes effective only upon registration with the relevant government authorities. Ownership of all lawful properties of the State, collective organizations and individuals are protected by the Property Law.

The Land Administration Law of the PRC, or the Land Administration Law, was promulgated by the Standing Committee of the NPC on June 25, 1986, became effective on January 1, 1987, and was amended on December 29, 1988 and August 28, 2004. According to the Land Administration Law, lands within the territory of the PRC fall into two categories: state-owned land and collectively-owned land. The use right of state-owned lands can be obtained through either government allocation or grant upon payment of appropriate grant fees. The Land Administration Law further provides that any construction must be conducted on state-owned lands except as otherwise permitted under the Land Administration Law. Collectively-owned lands may not be granted, assigned or leased for use of construction that is unrelated to agriculture unless otherwise permitted under the Land Administration Law. Violation of the Land Administration Law may result in facilities built thereon being demolished and, consequently, related businesses being forced to move to other locations.

***Intellectual Property Rights***

*Patent*

The Patent Law of the PRC, or the Patent Law, promulgated in 1984 and amended in 1992, 2000 and 2008, provides patents for the protection of proprietary rights. Pursuant to the Patent Law, patents are effective for 20 years from the initial date the patent application was filed.

*Patent Prosecution*

The PRC patent prosecution system adopts the principle of “first to file.” This means that, where more than one person files a patent application for the same invention, a patent will be granted to the person who first filed the application. The United States uses a principle of “first to discover” to determine the granting of patents. In addition, the PRC requires absolute novelty in order for an invention to be patentable. If a technology that is the subject of an invention patent application was known to the public prior to the filling of the application, then such technology is not qualified to be patented as an invention. In contrast, inventors in the United States have a one-year grace period after publication of the invention during which they may file a patent. Patents issued in the PRC are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system. Patents are filed at the State Intellectual Property Office of the PRC, or the SIPO, in Beijing.

*Patent Enforcement*

A patent holder who believes his patent is being infringed may either file a civil legal suit or file an administrative complaint with a provincial or municipal office of the SIPO. A PRC court may issue a preliminary injunction upon the patent holder’s or an interested party’s request before instituting any legal proceedings or during the proceedings. Damages for infringement are calculated as either the loss suffered by the patent holder arising from the infringement or the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in this manner, damages may be determined in the range of from one to three times of the license fee under a contractual license. If damages still cannot be determined, statutory damages from RMB10,000 to 1,000,000 may apply. As in other jurisdictions, patent holders in the PRC have the burden of proving that a patent is being infringed, with one notable exception that if the holder of a manufacturing process patent alleges infringement of such patent, the alleged infringing party has the burden of proving that there has been no infringement.

*International Patent Treaties*

The PRC is also a signatory to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, the Madrid Agreement on the International Registration of Marks and Madrid Protocol, or the Madrid Agreement and Protocol, the Patent Cooperation Treaty, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

Although patent rights are national rights, there is also a large degree of international co-operation under the Patent Cooperation Treaty, or the PCT, to which the PRC is a signatory. Under the PCT, applicants in one country can seek patent protection for an invention simultaneously in a number of other member countries by filing a single international patent application. The fact that a patent application is pending is not a guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

### *Trademark*

The Trademark Law of the PRC, or the Trademark Law, was promulgated by the Standing Committee of the NPC on August 23, 1982, as and was amended on February 22, 1993, October 27, 2001, and August 30, 2013. The PRC Trademark Law Implementation Rules was promulgated by the State Council on August 3, 2002 and became effective on September 15, 2002. The PRC is a signatory country to the Madrid Agreement and Protocol. The Madrid Agreement and Protocol provides for a mechanism under which an international registration produces the same effects as an application for registration of the trademark made in each of the countries designated by the applicant. According to the Trademark Law, the National Trademark Bureau under the SAIC is responsible for the registration and administration of trademarks in the PRC. A “first-to-file” principle with respect to trademarks has been adopted. Where a trademark is infringed, the trademark owner may file a complaint with the relevant administrative department or competent courts. Where the infringement is so serious that it constitutes a crime, the trademark owner may file a complaint with the relevant public security organization. If a registered trademark owner intends to assign his or her registered trademarks, a registered trademark transfer agreement must be entered into between the owner and the assignee. The owner and assignee are required to jointly apply with the National Trademark Bureau and its local counterparts for registration of such assignment under the Trademark Law. Registered trademark owners may license others to use their registered trademarks. Relevant license agreements shall be filed with the National Trademark Bureau or its relevant local counterparts.

### *Domain Names*

The Measures on the Administration of Domain Names for the Chinese Internet, or the Domain Names Measures, were promulgated by the Ministry of Information Industry on November 5, 2004 and became effective on December 20, 2004. The Domain Names Measures govern registration of domain names with the Internet country code “cn” and domain names in Chinese. The Measures on Domain Names Dispute Resolution, or the Domain Names Dispute Resolution Measures, were promulgated by the China Internet Infrastructure Center on February 14, 2006 and became effective on March 17, 2006. The Domain Names Dispute Resolution Measures require domain name disputes to be submitted to institutions authorized by the China Internet Network Information Center for resolution.

### *Environmental Protection*

The Environmental Protection Law of the PRC, or the Environmental Law, was promulgated on December 26, 1989 by the Standing Committee of the NPC and became effective on December 26, 1989. The Environmental Law establishes the legal framework for environmental protection in the PRC. The Ministry of Environmental Protection under the State Council is primarily responsible for the supervision and administration of environmental protection work nationwide and formulating national waste discharge limits and standards. Local environmental protection authorities at the county level and above are responsible for environmental protection in their jurisdictions.

The Law on Prevention and Control of Environmental Pollution by Solid Wastes, or the Solid Wastes Law, was promulgated by the NPC on December 29, 2004 and became effective on April 1, 2005. The Solid Wastes Law provides that any entity that discharges hazardous wastes must comply with relevant government provisions and approvals in disposing hazardous wastes. Moreover, it is prohibited to supply or transfer hazardous wastes to entities that do not have business licenses and qualifications for collection, storage, utilization and treatment of solid wastes. Parties that violate these provisions will be ordered to stop and correct such violation within a specified period of time or will be subject to a fine.

### *Labor Law*

According to the Labor Contract Law which became effective on January 1, 2008 and was amended on December 28, 2012, labor contracts must be entered into if labor relationships are to be established between an entity and its employees. An employer may not require its employees to work in excess of the time limit permitted under the relevant labor laws and regulations and must pay the employees’ wages that are no lower than the minimum wages under local standards. According to the Labor Contract Law and the Safe Production Law of the PRC, employers in the PRC are required to establish and perfect its system for labor safety and sanitation, comply with rules and standards relating to labor safety and sanitation, educate employees on labor safety and sanitation.

### *Foreign Currency Exchange*

Foreign currency exchange in the PRC is primarily governed by the Foreign Exchange Administration Rules and the Regulations of Settlement, Sale and Payment of Foreign Exchange.

Under the Amended Foreign Exchange Administration Rules, which became effective on August 5, 2008, Renminbi is freely convertible for current account items, including the distribution of dividends payments, interest payments, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loans, securities investment and repatriation of investment, however, is still generally subject to the approval or verification of the SAFE.

Under the Regulations of Settlement, Sale and Payment of Foreign Exchange, promulgated in 1996, foreign invested enterprises, or FIEs, including WFOEs, may buy, sell or remit foreign currencies only at those banks that are authorized to conduct foreign exchange business after providing such banks with valid commercial supporting documents and, in the case of capital account item transactions, after obtaining approvals from the SAFE. Capital investments by FIEs outside the PRC are also subject to limitations, which include approvals by the MOFCOM, the SAFE and the NDRC.

On August 29, 2008, the SAFE promulgated Circular 142, which stipulates that the registered capital of an FIE may only be used for the purpose within its approved business scope and shall not be used for equity investment within the PRC. Violations of Circular 142 may result in penalties, including fines as set forth in the Foreign Exchange Administration Rules.

***Foreign Exchange Regulations on Special Purpose Vehicles***

In July 2014, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Overseas Investment and Financing and Reverse Investment Activities of Domestic Residents Conducted via Special Purpose Companies, or Notice 37, which became effective as of July 4, 2014, and replaced the previous Notice 75. Notice 37 maintain the registration requirement of PRC residents with the local SAFE branch for establishing or controlling any offshore company for the purpose of investment, and financing and conducting reverse investment in China with the domestic or overseas asset or equity that they legally hold, which is referred to as a “Special Purpose Vehicle” under Notice 75. It further requires amendment to a PRC resident’s registration in the event of significant changes to a Special Purpose Vehicle, such as an increase or decrease of capital, share transfer or exchange, merger, division or other material event. Notice 37 provides clearer guidance and procedures for the registration requirements compared to Notice 75. As Notice 37 is newly issued, it is unclear how these regulations will be interpreted and implemented. In addition, different local SAFE branches may have different views and procedures as to the interpretation and implementation of the SAFE regulations.

Under the relevant rules, failure to comply with the registration procedures set forth in Notice 37 may result in restrictions being imposed on the foreign-exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign-exchange administration regulations.

If any PRC shareholder of our company, which is an offshore company, fails to make the required SAFE registration and amendment registration, the PRC subsidiaries of our company may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to our company. In addition, failure to comply with the SAFE registration and amendment registration requirements described above could result in liability under the PRC laws for evasion of applicable foreign-exchange restrictions and subject us to large fines. We require all our shareholders who are PRC residents to comply with any SAFE registration requirements, but we have no control over either our shareholders or the outcome of such registration procedures. Such uncertainties may materially and adversely affect our business and prospects.

***Regulations on Mergers and Acquisitions by Foreign Investors***

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the SASAC, the SAT, the SAIC, the CSRC, and the SAFE, jointly promulgated the 2006 M&A Rule, which became effective on September 8, 2006 and were amended on June 22, 2009. The 2006 M&A Rule, among other things, includes provisions that purport to require that an offshore special purpose vehicle formed for the purpose of an overseas listing of securities in a PRC company obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. On September 21, 2006, the CSRC issued a clarification that sets forth the criteria and process for obtaining any required approval of overseas listings by special purpose vehicles. However, substantial uncertainty remains regarding the scope and applicability of the 2006 M&A Rule to offshore special purpose vehicles.

The application of the 2006 M&A Rule with respect to our initial public offering and our corporate structure remains unclear. Our PRC counsel has advised us that we were not required to apply with any relevant PRC regulatory agencies, including the CSRC, for approval of our initial public offering or the current corporate structure for our initial public offering. Please refer to Item 3D “Key Information—Risk Factors—Risks Relating to Doing Business in the PRC—Any requirement to obtain prior approval from the China Securities Regulatory Commission, or the CSRC, and a failure to obtain this approval, if required, could have a material and adverse effect on our business, operating results, reputation and trading price of our ADSs.”

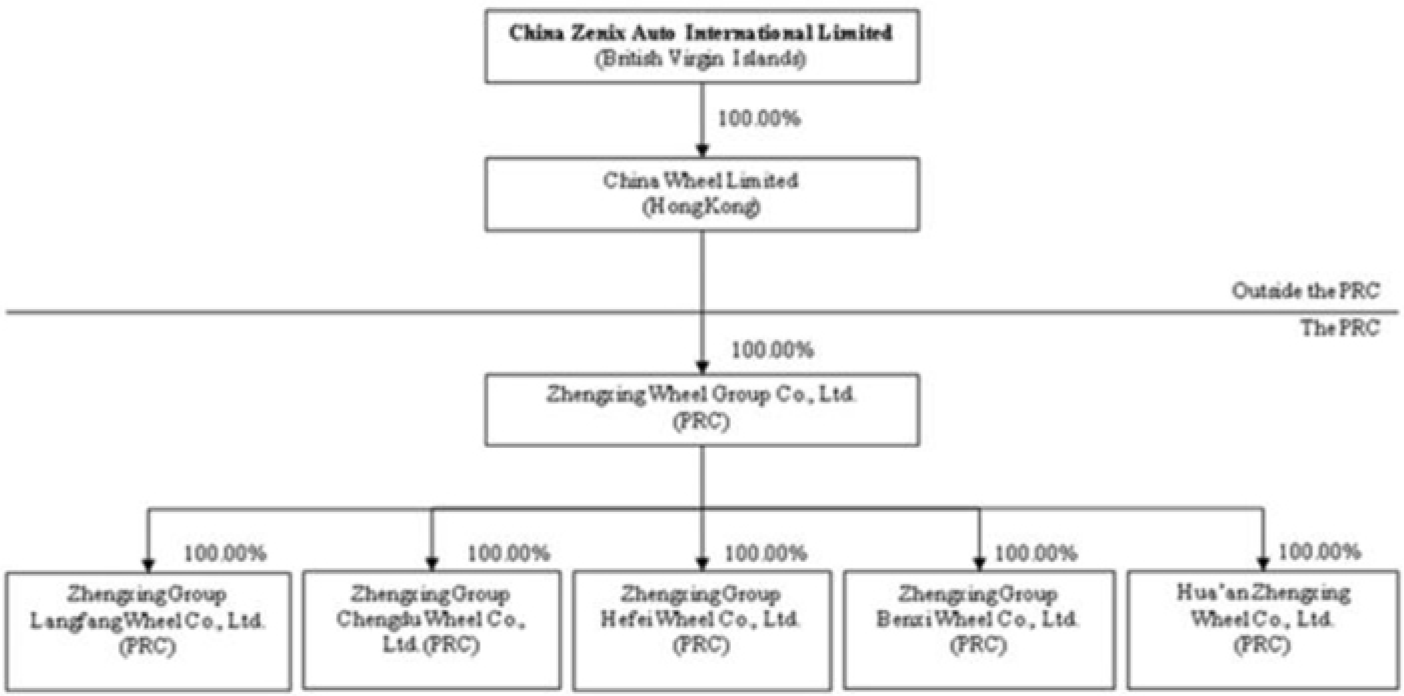
In addition, on February 3, 2011, the State Council promulgated the Security Review Rule, which became effective 30 days after February 3, 2011. The Security Review Rule, among other things, provides that merger and acquisition transactions by foreign investors of domestic enterprises in sensitive sectors or industries may be subject to security review and, as a result may be blocked due to their impact on the national defense security, national economic stability, basic social life order, or capacity of indigenous research and development of key technologies. Please refer to Item 3D “Key Information—Risk Factors—Risks Relating to Doing Business in the PRC—The 2006 M&A Rule and Security Review Rule set forth complex procedures for acquisitions conducted by foreign investors that could make it more difficult to pursue acquisitions.”

***Regulations on Employee Share Options***

On March 28, 2007, SAFE promulgated the Share Option Rule. On February 15, 2012, SAFE issued the Stock Incentive Plan Rule which replaced the Share Option Rule. Under the Stock Incentive Plan Rule, PRC citizens who are granted share options or other employee equity incentive awards by an overseas publicly-listed company are required, through a qualified PRC agent or a PRC subsidiary of such overseas publicly-listed company, to register with the SAFE and complete certain other procedures related to the share options or other employee equity incentive plans. We and our PRC citizen grantees are subject to these regulations. If we or our PRC citizen grantees fail to comply with these regulations, we or our PRC citizen grantees may be subject to fines and other legal or administrative sanctions. Please refer to Item 3D "Key Information—Risk Factors—Risks Relating to Doing Business in the PRC—Failure to comply with PRC regulations regarding the registration requirements for employee equity incentive plans may subject our PRC citizen grantees or us to fines and other legal or administrative sanctions."

### C. Organizational Structure

The following diagram illustrates our corporate structure as of March 31, 2017:




### D. Property, Plants and Equipment

We are headquartered in Zhangzhou, Fujian Province where we have our manufacturing facilities (including our main administrative offices, a research and development center, a test center and employee dormitories) with an aggregate floor area of approximately 121,630 square meters. We also have four other manufacturing facilities (including offices and employee dormitories) in Langfang, Hebei Province, Chengdu, Sichuan Province, Hefei, Anhui Province, and Benxi, Liaoning Province with an aggregate floor area of approximately 138,040 square meters, 47,303 square meters, 45,870 square meters and 26,740 square meters, respectively. In addition, we have a research and development center at each of our manufacturing facilities in Langfang, Hebei Province and Hefei, Anhui Province. We have obtained land use rights and property ownership certificates for all these manufacturing facilities. In addition, certain of our manufacturing facilities have been pledged to secure our bank borrowings, which amounted to RMB130.0 million, RMB180.0 million and RMB180.0 million (US$25.9 million) as of December 31, 2014, 2015 and 2016, respectively.

In the third quarter of 2015, we completed the construction of an aluminum wheel manufacturing facility (including offices, a research and development center, a test center and employee dormitories) with an aggregate floor area of approximately 65,000 square meters in Zhangzhou, Fujian Province. We have obtained land use rights for this manufacturing facility and are in the process of applying for the relevant property ownership certificates.

## Item 4A. Unresolved Staff Comments

Not applicable.

## Item 5. Operating and Financial Review and Prospects

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with Item 3A “Key Information — Selected Financial Data” and our audited consolidated financial statements and the related notes included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3D “Key Information — Risk Factors” and elsewhere in this annual report.*

## A. OPERATING RESULTS

### Overview

We are the largest commercial vehicle wheel manufacturer in the PRC in both the aftermarket and OEM market in terms of sales volume, and our leading market share has been increasing continuously in recent years. We believe that our products enjoy premium brand recognition in the industry, especially among end-users. We also export our products to more than 28 countries worldwide.

We design, manufacture and sell high quality steel and aluminum wheels that are widely used by most types of commercial vehicles. Our product offering is one of the most diversified in the PRC commercial vehicle wheel industry. We currently offer more than 772 series of tubed steel wheels, tubeless steel wheels, off-road steel wheels and aluminum wheels. Each series of steel wheels comes in a range of performance specifications, sizes and colors to meet the various requirements of our customers.

We have a diversified customer base with our products being sold in both the aftermarket and OEM market in the PRC and internationally. We sell our products to end-users in the PRC aftermarket through our nationwide distribution network which we believe is the most extensive distribution network among commercial vehicle wheel manufacturers in the PRC. As of December 31, 2016, our distribution network consisted of more than 3,799 distributors, including 23 tier-one distributors, 2,461 exclusive tier-two distributors and 1,315 non-exclusive tier-two distributors, throughout the PRC. Our OEM customers included more than 82 automotive manufacturers in the PRC as of December 31, 2016, including the group members of a number of large PRC commercial vehicle manufacturers. In international markets, we sold our products to more than 82 distributors in the aftermarket and directly to 5 OEMs as of December 31, 2016, including Tokyo Sharin of Japan, Eicher Motors Limited, Fuwa Engineering(s) Pte Ltd, York Transport Equipment (Asia) Pte Ltd and Tata Daewoo Motor of South Korea. Thailand was our largest international market in 2014, 2015 and 2016. In 2014, 2015 and 2016, we had revenue of RMB3,334.4 million, RMB2,445.8 million and RMB2,249.5 million (US$324.0 million), respectively, representing a decrease of 26.6% from 2014 to 2015 and 8.02% from 2015 to 2016. In 2014, 2015 and 2016, we had a profit of RMB79.2 million, a loss of RMB28.6 million and a loss of RMB 25.9 million (US$3.7 million), respectively.

### Factors Affecting Our Results of Operations

We believe that the most significant factors affecting our financial condition and results of operations are:

#### *General Economic Conditions and Growth of the Automotive Market in the PRC and Worldwide*

Our financial condition and results of operations have been, and we expect them to continue to be, dependent to a significant extent on general economic conditions and growth of the automotive market in the PRC and in other countries where our products are sold, such as Thailand which is our largest international market from 2013 to 2016. We sell steel wheels both through a network of distributors to aftermarket end-users as replacements for worn out or lower quality wheels, as well as to OEMs for use on their commercial vehicles. The actual demand from both aftermarket end-users and OEMs customers depends on the overall demand for and usage of commercial vehicles, which in turn depends on a number of factors including overall economic conditions, vehicle sales and availability and quality of transportation networks in the markets where we sell and distribute our products.

As the PRC economy developed, domestic commercial vehicle sales had enjoyed a relatively long period of growth, which partially drove the domestic sales of our products. In 2013, our PRC aftermarket and OEM sales increased slightly compared to 2012 primarily due to the gradual recovery of the global economy as well as an increase in domestic commercial vehicle sales in 2013 in anticipation of the promulgation of a policy that would substantially increase the prices of automotives when switching from National III emission standard to National IV emission standard. In 2014, our OEM sales also decreased as truck manufacturers cut back on new vehicle production in light of the looming switch from National III to National IV emission standard and the need to decrease inventory of current model of National III compliance vehicles prior to launching National IV compliance vehicles. In 2015, PRC economy slowed down significantly. The lowest rate of increase in the last 15 years in construction and infrastructure related activities led to a significant decline in truck sales, especially in the medium- and heavy-duty truck sectors. A lack of investment in infrastructure and real estate projects compared to previous trends also led to a continued weakness in our aftermarket segment. As a result, PRC truck sale is estimated to have decreased approximately 27% in 2015 compared to 2014. In 2016, with a slight growth in the road logistics market and the implementation of GB1589 regulations and over-limit policies, the heavy-duty truck sector showed a trend of recovery, and heavy-duty truck sales increased significantly. With respect to the PRC market, a total of 3.7 million commercial vehicles were manufactured with sales of 3.65 million commercial vehicles, representing an increase of 15.5% and 14.9%, respectively, from 2015. Of the commercial vehicles, 741,400 heavy-duty trucks were manufactured and 732,900 heavy-duty trucks sold, representing an increase of 38.3% and 33.1%, respectively, as compared to 2015. Further, the gradual increase in commodities prices stimulated market trading and drove the development of the logistics and transportation sector. Simultaneously, integration of the logistics sector and the production of more efficient and high-end vehicles also boosted the heavy-duty truck sector. The in-depth implementation of the “One Belt, One Road” policy to redevelop the southern silk road and strengthened international cooperation on production capacity in South and Southeast Asia will help support the export of heavy-duty trucks.

Outside the PRC, our international sales have been affected by the recent global financial crisis which began in the second half of 2008, as some of the countries to which we export our products experienced an economic slowdown and the demand in the international automotive market reduced significantly between 2008 and 2011. Our international sales decreased in 2013 compared to 2012, primarily due to an increase in the anti-dumping duties imposed by the Indian government in India, which has resulted in a substantial decrease in our sales to the Indian market. In 2014, the depreciation of Indian rupee also adversely affected Indian economy. As a result, we nearly ceased our sales to the Indian market. At the same time, we had also gain new headway in the Southeast Asian market, particularly with respect to Thailand. In early 2015, our international sales decreased due to lower selling prices despite stable unit sales as a result of the Renminbi depreciation and competitive pricing. In the second half of 2015, currency depreciation in Southeastern Asian countries, including Thailand, Indonesia and Myanmar, also weakened the demand from these markets. As cost increases persist, domestic export prospects look increasingly challenging, and the continued depreciation of Renminbi was not able to alleviate the situation. In 2016, excess production capacity in wheel manufacturing continues to plague the PRC market, and competition in export pricing remained intense. Notwithstanding this, we kept our focus on the Southeast Asian market and will continue to explore this new market for high value-added products.

The implementation, renewal, change or cancellation of any government policies in the future, such as economic stimulus or tightening measures or currency controls, in the PRC or in any of the international markets where our products are sold, may significantly affect our business. If the demand for our wheels declines as a result of changes of economic conditions in the automotive industry or does not grow at the pace we anticipate, our business, financial condition, results of operations and prospects could be harmed.

***Competition and Prices of Our Products***

The key competitive factors in the aftermarket are price, product quality, product diversification, brand reputation, technology and ability to develop new products, delivery timeliness, after-sales service and customer relationships. In the OEM market, the same factors apply, except that OEMs are relatively more concerned with production scale rather than product diversification or brand reputation. The prices of our products are based on a variety of factors, including macro economic conditions, supply and demand conditions for our products in the market, product quality and the terms of our arrangements with customers.

We believe that as a result of our large market share, premium brand recognition and high product quality, we have been able to charge a slight premium for our products. Also, as wheels generally extend the useful lives of tires, which are usually more expensive than wheels, we believe that wheels are typically less subject to downward price pressure by end-users and end-users are usually willing to pay higher prices for high-quality wheels, like ours, thus strengthening our ability to set the prices of our products. The average selling prices of our products in the aftermarket tend to be slightly higher than that for the OEM market, both in the PRC and internationally. Although our average selling prices decreased in 2016 compared to the prior year due to the deteriorating macroeconomic condition in the PRC that resulted in decreased sales of domestic commercial vehicles by PRC OEMs, we believe that prices of wheels in the PRC OEM market will increase once the macroeconomic condition stabilizes or improves. However, in the foreseeable future, we would continue to be subject to a deteriorating market condition in the PRC, the need to continue our competition pricing strategy to maintain our market share, and sharp fluctuation in market demand that could adversely affect our prices in future periods. Moreover, if through larger production scale, superior product quality, better technology or other factors, a competitor gains the pricing power that we currently enjoy, our prices and sales volume would be adversely affected. A weak OEM market would also affect the aftermarket segment in China as completion intensified and pricing pressure increased.

In our international markets, our prices are usually set by reference to the prevailing market prices in each jurisdiction where we sell our products, as well as the factors affecting pricing listed above. Our pricing outside the PRC is also affected by such factors as RMB foreign exchange rates in terms of our sales price, the strengths of the local currency from the perspective of the buyers and government regulations such as import and export taxes.

***Cost and Availability of Steel***

Our principal raw material is steel which accounts for substantially all of our total raw material requirements. We purchase steel from a limited number of selected reputable suppliers in the PRC. We generally enter into framework agreements with our steel suppliers which typically set a purchase amount, pursuant to which we place orders from time to time. These agreements are renewed every year upon mutual agreement unless terminated by the parties. The actual purchase price and amount of steel vary from order to order. Prices of steel are subject to fluctuation depending on supply and demand in the market, and we generally are able to purchase steel at prices slightly lower than the prevailing market prices because of our large volume of purchases.

It is crucial to our business that we obtain from our suppliers sufficient quantities of steel meeting our specifications in a timely manner and at competitive prices for our production. We have long-term relationships with most of our steel suppliers, and to date, have not experienced any shortage of steel for our production. If one or more of our principal steel suppliers fails to meet our purchase orders, we believe that we can obtain steel from alternative suppliers, but we may experience a delay in deliveries in that case, which could adversely affect our production. Moreover, fluctuations in the prices of steel and our ability to pass on any increase in raw material costs to our customers will affect our cost of sales and our gross profit margins. Because of our leading market position and the strong demand for our products, we believe we generally are able to set the prices of our products at a premium and pass on any significant increases in our raw material costs to our customers. In addition, we generally reduce the selling prices of our products when there are significant decreases in our raw material costs.

In the past few years, fluctuation in the price of steel has affected the prices of our products in part. The average selling prices of our products decreased from 2012 to 2016 mainly due to deteriorating macroeconomic condition and market competition, the prices of steel also decreased during this period.

***Product Research and Development and Product Mix***

Our success depends significantly on our ability to stay at the forefront of new product development and production technology in the commercial vehicle wheel industry in the PRC and internationally. Accordingly, we are committed to the research and development of new models of wheels, as well as ongoing enhancements in existing product quality and production technology. Please refer to Item 4B "Information on the Company—Business Overview—Research and Development" for more details on our research and development efforts. Nevertheless, we cannot be certain that our research and development activities will be successful or that our product mix will continue to be competitive in the commercial vehicle wheel market, particularly as we expand into other types of products such as aluminum wheels.

In addition, our results of operations are to a certain extent affected by our product mix as different products have different profitability. We generally adjust our product mix in favor of more profitable products. For example, we have allocated more weight to tubeless steel wheels in our product mix in recent years, as tubeless steel wheels generally have higher gross profit margin than tubed steel wheels. If the profitability of different wheel products change and we fail to reflect such changes in our product mix, our results of operations may be adversely affected.

***Our International Sales and International Expansion Plans***

As discussed above, international sales as a percentage of our revenue have been, and are expected to continue to be, affected by the conditions of the global economy and the automotive industry. Therefore, the rate of our international sales can be unstable. Furthermore, our international sales generally have a lower gross profit margin compared to our sales in the PRC primarily due to lower product prices in our international markets and a higher proportion of our international sales being tubed steel wheels, instead of tubeless steel wheels for which we have a higher gross profit margin.

As a result, our operations and financial performance are affected by the social, economic, political and regulatory conditions in the countries where we may operate or where our products may be sold in the future. Furthermore, regulations and policies affecting trade and bilateral relations between the PRC and the countries and regions to which we export our products can adversely affect our international sales in those countries and regions.

When exporting to international markets, we may be subject to import taxes, duties or other barriers to free trade. Although we do not believe that we have engaged in anti-competitive behavior and had challenged the imposition of these anti-dumping duties, we cannot be certain whether similar duties, taxes or other charges will be imposed against us in the future and to what extent such duties, taxes or other charges, or other regulatory changes in the international markets where we sell our products will adversely affect our business.

Therefore, we cannot assure you that we will be able to maintain or increase our revenue derived from international sales or that we will be able to benefit from our international expansion plans.

**Components of Results of Operations**

***Revenue***

Our revenue is primarily derived from sales of steel wheels, including tubed, tubeless, off-road steel wheels and aluminum wheels, for use in commercial vehicles. We sell our products to (i) tier-one distributors in the PRC who then resell our products to end-users in the PRC aftermarket through tier-two distributors, (ii) OEMs in the PRC, and (iii) international distributors and OEMs. We categorize our business into the following three operating segments based on these sales channels: (i) PRC aftermarket sales, (ii) PRC OEM sales, and (iii) international sales. Our revenue represents the consideration received or receivable for our goods sold, net of related taxes, sales rebates and discounts. We recognize revenue when our products are delivered to locations designated by our customers, inspected by our customers to their satisfaction and title has passed.

PRC aftermarket sales as a percentage of our revenue decreased from 49.9% in 2014 to 48.8% in 2015 and 45.4% in 2016, in light of the deterioration of the PRC economy. PRC OEM market sales as a percentage of our revenue decreased from 34.6% in 2014 to 33.3% in 2015 but increased to 38.1% in 2016. International sales accounted for 15.5%, 17.9% and 16.5%, respectively, of our revenue for the same periods.

Our international sales as a percentage of our revenue increased from 15.5% in 2014 to 17.9% in 2015 and 16.5% in 2016 as a result of our enhanced sales and marketing efforts in various countries in Asia. In 2013, an increase in the anti-dumping duties imposed by the Indian government in India, which has resulted in a substantial decrease in our sales to the Indian market. From 2013 to 2014, the depreciation of Indian rupee also adversely affected the Indian economy. As a result, we nearly ceased our sales to the Indian market. On the other hand, we had also gained new headway in the Southeast Asian market, particularly with respect to Thailand, to offset our losses in India. We expect international sales as a percentage of our revenue to continue to be affected by both global economic trends and local conditions.

Sales of tubed steel wheels accounted for 57.8%, 56.1% and 54.6% of our revenue in 2014, 2015 and 2016, respectively. Sales of tubeless steel wheels accounted for 37.6%, 37.5% and 36.4%, respectively, of our revenue for the same periods. We commenced sales of off-road steel wheels in 2008 which accounted for 1.7%, 1.8% and 1.6% of our revenue in 2014, 2015 and 2016, respectively. We commenced sales of aluminum wheels in the third quarter of 2015 which accounted for 1.1% of our revenue in 2015 and 4.6% of our revenue in 2016. We expect the upward trend shown in our sales of aluminum wheels as a percentage of our revenue to continue as a result of the boom in the aluminum wheel market. Sales of wheel components accounted for 2.9%, 3.5% and 2.8% of our revenue in 2014, 2015 and 2016, respectively. Our sales of tubed steel wheel decreased from 57.8% in 2014 to 56.1% in 2015 and 54.6% in 2016 and we expect sales of tubed steel wheels as a percentage of our revenue to decrease and sales of tubeless steel wheels as a percentage of our revenue to increase in the long-term, primarily due to the overall market trend of the gradual replacement of tubed steel wheels by tubeless steel wheels.

The following table sets forth the breakdown of our revenue by sales channel/operating segment for the periods indicated:

| | Year Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2015 | | 2016 | | 2016 | |
| | RMB | % of Revenue | RMB | % of Revenue | RMB | % of Revenue | US$ | % of Revenue |
| | (in thousands, except percentages) | | | | | | | |
| PRC aftermarket sales | 1,665,168 | 49.9 | 1,194,205 | 48.8 | 1,021,269 | 45.4 | 147,093 | 45.4 |
| PRC OEM sales | 1,153,623 | 34.6 | 814,621 | 33.3 | 856,727 | 38.1 | 123,394 | 38.1 |
| International sales | 515,564 | 15.5 | 436,930 | 17.9 | 371,537 | 16.5 | 53,513 | 16.5 |
| Total | 3,334,355 | 100.0 | 2,445,756 | 100.0 | 2,249,533 | 100.0 | 324,000 | 100.0 |

The following table sets forth the breakdown of our revenue by category of product for the periods indicated:

| | Year Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2015 | | 2016 | | 2016 | |
| | RMB | % of Revenue | RMB | % of Revenue | RMB | % of Revenue | US$ | % of Revenue |
| | (in thousands, except percentages) | | | | | | | |
| Tubed steel wheels | 1,927,598 | 57.8 | 1,373,210 | 56.1 | 1,227,862 | 54.6 | 176,849 | 54.6 |
| Tubeless steel wheels | 1,252,449 | 37.6 | 918,191 | 37.5 | 818,488 | 36.4 | 117,887 | 36.4 |
| Off-road steel wheels | 55,540 | 1.7 | 43,403 | 1.8 | 36,593 | 1.6 | 5,270 | 1.6 |
| Aluminum wheels | — | — | 27,413 | 1.1 | 103,759 | 4.6 | 14,944 | 4.6 |
| Wheel components | 98,768 | 2.9 | 83,539 | 3.5 | 62,831 | 2.8 | 9,050 | 2.8 |
| Total | 3,334,355 | 100.0 | 2,445,756 | 100.0 | 2,249,533 | 100.0 | 324,000 | 100.0 |

### *Cost of Sales*

Cost of sales primarily consists of (i) raw material costs, (ii) manufacturing overhead costs such as depreciation of property, plant and equipment and amortization of prepaid lease payments used for production purposes, and utilities and auxiliary materials associated with the manufacturing of our products, and (iii) direct labor costs.

The following table sets forth the breakdown of our cost of sales for the periods indicated:

| | Year Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2015 | | 2016 | | 2016 | |
| | RMB | % of Cost of Sales | RMB | % of Cost of Sales | RMB | % of Cost of Sales | US$ | % of Cost of Sales |
| | (in thousands, except percentages) | | | | | | | |
| Raw material costs | 2,041,442 | 74.4 | 1,483,364 | 71.2 | 1,319,820 | 71.0 | 190,094 | 71.0 |
| Utilities and auxiliary materials | 365,795 | 13.3 | 286,403 | 13.8 | 233,352 | 12.5 | 33,610 | 12.5 |
| Depreciation and amortization | 104,550 | 3.8 | 103,445 | 5.0 | 115,790 | 6.2 | 16,677 | 6.2 |
| Direct labor costs | 217,983 | 7.9 | 195,278 | 9.4 | 181,115 | 9.7 | 26,086 | 9.7 |
| Taxes | 15,126 | 0.6 | 13,486 | 0.6 | 11,940 | 0.6 | 1,719 | 0.6 |
| Total | 2,744,896 | 100.0 | 2,081,976 | 100.0 | 1,862,017 | 100.0 | 268,186 | 100.0 |

### *Other Income, Gain and Loss*

Other income, gain and loss primarily consists of (i) interest income, (ii) net gain/(loss) from sales of scrap materials and (iii) government grants. Government grants primarily consist of grants, subsidies and similar incentives for which we apply and that we periodically receive from various PRC government authorities mainly in relation to our capital expenditures and research and development efforts. We do not receive government grants on a regular basis, and the amounts that we have received in the past have fluctuated. While we intend to continue to apply for government grants in the future, there can be no assurance that we will receive any such grants. Sales of scrap materials represent sales of scrap steel from our manufacturing process to third parties or recycling stations.

### *Net Exchange (Losses)/Gains*

Net exchange (losses)/gains represent losses or gains arising from the translation of monetary assets and liabilities (primarily associated with trade receivables and cash balances from our international sales) denominated in foreign currencies, U.S. dollars and Euros, from such currencies to our functional currency, Renminbi.

### *Selling and Distribution Costs*

Selling and distribution costs primarily consist of (i) transportation costs for delivery of our products, (ii) business promotion and advertising expenses in connection with our marketing efforts such as promotional campaigns and advertising on billboards, as well as subsidies for marketing and related expenses to our exclusive tier-two distributors in connection with our brand recognition enhancement efforts, in accordance with our agreements with them, and (iii) salaries, bonuses and related expenses for personnel engaged in sales and marketing. We incur significant transportation costs in connection with the delivery of our products to our customers in the PRC who are not located near our manufacturing facilities and to our customers outside the PRC. We usually deliver our finished products to customers in the PRC by truck or by train. We make international deliveries primarily by sea. Our export contracts are usually entered into on a Free On Board (FOB) basis, which means that we pay for shipping of the goods to the port of shipment, plus loading costs. Our customers pay freight, insurance, unloading costs and shipping from the port of destination to the factory. On behalf of our customers, we engage a number of shipping agents to transport our finished products overseas. Our transportation costs were RMB152.9 million, RMB120.4 million and RMB90.6 million (US$13.0 million) in 2014, 2015 and 2016, respectively. We expect our selling and distribution costs, as a percentage of revenue, to remain relatively stable for the foreseeable future.

### *Research and Development Expenses*

Research and development expenses primarily consist of (i) purchases of supplies and materials used in our research and development projects, (ii) salaries, bonuses and related expenses for personnel engaged in research and development, (iii) consumption of low-value consumables used in our research and development projects and (iv) depreciation of property, plant and equipment used in connection with our research and development efforts.

We expect our research and development expenses to continue to increase for the foreseeable future as we continue to develop new and enhanced steel wheels and as we further enhance our research and development for aluminum wheels. However, as a percentage of revenue, we expect our research and development expenses to remain relatively stable for the foreseeable future.

***Administrative Expenses***

Administrative expenses primarily consist of (i) salaries, bonuses and related expenses for administrative personnel and management, (ii) depreciation of property, plant and equipment and amortization of prepaid lease payments used for administrative purposes, and (iii) other tax expenses such as land taxes and property taxes in connection with our manufacturing facilities and stamp duty in connection with the agreements we entered into. Administrative expenses also include equity-settled share-based compensation expenses.

We expect our administrative expenses to continue to increase steadily for the foreseeable future as our business grows. However, as a percentage of revenue, we expect our administrative expenses to remain relatively stable for the foreseeable future.

***Finance Costs***

Finance costs primarily consist of interest expense on bank borrowings.

**Taxation**

***British Virgin Islands***

We are incorporated in the British Virgin Islands. Under the current laws of the British Virgin Islands, as a business company incorporated under the BVI Business Companies Act (as amended), or the BVI Act, we are not subject to taxation on our income or capital gains. In addition, dividend payments made by us are not subject to withholding tax in the British Virgin Islands.

***Hong Kong***

We did not have any assessable profits subject to the Hong Kong profits tax in 2014, 2015 and 2016. We do not anticipate having any income subject to income taxes in Hong Kong for the foreseeable future.

***People's Republic of China***

Our subsidiaries incorporated in the PRC are governed by applicable PRC income tax laws and regulations.

Prior to January 1, 2008, our PRC subsidiaries were subject to PRC enterprise income tax at a statutory tax rate of 33.0%. The EIT Law and the implementation rules issued by the State Council became effective as of January 1, 2008. The EIT Law provides that all enterprises in the PRC, including foreign-invested companies, are subject to a uniform 25.0% enterprise income tax rate and all tax reduction or exemption as well as incentives previously provided to foreign-invested enterprises were to be cancelled. Accordingly, our PRC subsidiaries were subject to PRC enterprise income tax at a statutory rate of 25.0% in 2016, except for (i) Zhengxing Wheel, which has been recognized as a "High and New Technology Enterprise" and enjoys a preferential tax rate of 15.0% from 2008 to 2016, and (ii) Zhengxing Chengdu Wheel, which was incorporated in the western region of the PRC in July 2004 and derived more than 70.0% of its total income from the business of state-encouraged industry, and enjoys a preferential tax rate of 15.0% from its inception in 2004 to 2020.

These preferential income tax rates are subject to periodic review and renewal by PRC authorities. Please refer to Item 3D "Key Information—Risk Factors—Risks Relating to Our Business and Industry—Our business benefits from certain PRC government tax incentives. Expiration of, or changes to, these incentives and PRC tax laws could have a material adverse effect on our operating results."

The EIT Law also provides that enterprises established outside the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and are generally subject to the uniform 25.0% enterprise income tax rate as to their worldwide income. Under the implementation rules for the EIT Law issued by the State Council, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Although all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise.

Under the EIT Law and the implementation rules issued by the State Council, PRC income tax at the rate of 10.0% is applicable to dividends payable to investors that are "non-resident enterprises," which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to PRC income tax at a rate of 10.0% if such gain is regarded as income derived from sources within the PRC. A lower income tax rate of 5.0% is applied if the "non-resident enterprises" are registered in Hong Kong or other jurisdiction that have a tax treaty arrangement with China. If we are considered a PRC "resident enterprise," it is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and be subject to PRC tax. It is also unclear whether, if we are considered a PRC "resident enterprise," holders of our ordinary shares or ADSs might be able to claim the benefit of income tax treaties entered into between China and other countries.

In addition, we also benefit from PRC tax policies designed to encourage exports. In the PRC, steel wheels are normally subject to a VAT of 17.0%, but we receive a full rebate of or exemption from the VAT for the steel wheels that we export. The value of these VAT exemptions and rebates amounted to approximately RMB85.9 million, RMB80.0 million and RMB61.7 million (US$8.9 million) in 2014, 2015 and 2016, respectively.

**Equity-settled Share-based Compensation Expenses**

In December 2010, Newrace Limited granted to Mr. Yifan Li, our former chief financial officer, restricted ordinary shares in our company in consideration of his service to us. Of these restricted shares, 35.0%, 25.0% and 20.0% vested on the date our initial public offering was completed, on December 31, 2011 and on December 31, 2012, respectively, and 20.0% vested on December 31, 2013. We did not incur non-cash share-based compensation expenses in each of 2014, 2015 and 2016 in connection with the share option granted to one of our executive officers in August 2011 and the restricted share unit awards granted to each of our independent directors in March 2012 under our 2011 Share Incentive Plan. We account for compensation costs for all such restricted share grants, share options and restricted share unit awards using the fair value determined on the grant date and recognize the expenses in our consolidated statement of comprehensive income.

For a further description of these arrangements, please refer to Item 7B "Major Shareholders and Related Party Transactions—Related Party Transactions—Restricted Shares Granted to Mr. Yifan Li by Newrace Limited" and Item 6B "Directors, Senior Management and Employees—Compensation—Compensation of Directors and Executive Officers."

**Critical Accounting Policies**

We prepare our consolidated financial statements in accordance with IFRS as issued by the IASB, which requires us to make judgments, estimates and assumptions that affect: (i) the reported amounts of our assets and liabilities; (ii) the disclosure of our contingent assets and liabilities at the end of each reporting period; and (iii) the reported amounts of revenue and expenses during each reporting period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates.

We believe that any reasonable deviation from those judgments and estimates would not have a material impact on our financial condition or results of operations. To the extent that the estimates used differ from actual results, however, adjustments to the statement of comprehensive income and corresponding statement of financial condition accounts would be necessary. These adjustments would be made in future financial statements.

When reading our financial statements, you should consider (i) our critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements. We have not made any material changes in the methodology used in these accounting policies during the past three years.

***Basis of Preparation***

We have prepared our consolidated financial statements on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

***Revenue Recognition***

We measure revenue at the fair value of the consideration received or receivable and revenue represents amounts receivable for goods sold in the normal course of business, net of related taxes, sales rebates and discounts. We recognize revenue when goods are delivered to, and inspected to their satisfaction by, our customers, and title has passed, when it is probable that the economic benefits will flow to us, and when the revenue can be measured reliably and collectability is reasonably assured.

Our revenue is primarily derived from sales of steel wheels, including tubed, tubeless and off-road steel wheels, for use in commercial vehicles, to distributors and OEMs in and outside the PRC. For our PRC aftermarket sales, we sell only to tier-one distributors who then resell our products to tier-two distributors. We do not sell directly to tier-two distributors or end-users. We also sell our wheel components such as wheel discs to distributors for use in the aftermarket in the PRC and internationally. In line with market practice, we do not provide exchanges or returns of our products. For our products sold to OEMs in the PRC, we allow them to deduct an amount (typically equal to or less than 1.0% of the total invoice amount) from the invoice amount we charge which can be used to cover any defective products. For our PRC aftermarket sales, our tier-two distributors typically provide end-users with product exchanges or returns for defective products within a three-month warranty period. Upon an exchange or acceptance of a return of a defective product, two-tier distributors will either exchange the defective product with, or return the defective product to, their tier-one distributors, or deduct an amount from the invoice payable to their tier-one distributors, depending on their arrangements with the particular tier-one distributors. We do not have any responsibility or liability over the arrangements between tier-one and tier-two distributors. We also do not provide any warranty for our products sold to international customers, and we do not provide exchanges or returns of our products for these customers.

We accrue interest income from a financial asset on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

***Taxation***

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. We calculate our liability for current tax using tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

We recognize deferred tax on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. We generally recognize deferred tax liabilities for all taxable temporary differences. We generally recognize deferred tax assets for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. We do not recognize such assets and liabilities if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

We recognize deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not be reversed for the foreseeable future.

We review the carrying amount of deferred tax assets at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

We measure deferred tax assets and liabilities at the tax rates that are expected to apply in the period in which the liability is settled, or the asset is realized based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of our assets and liabilities.

We recognize current and deferred taxes in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

***Inventories***

We state inventories at the lower of cost and net realizable value. We calculate cost using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

***Intangible Assets***

We identify and recognize intangible assets acquired in a business combination separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is measured at their fair value at the acquisition date.

Subsequent to initial recognition, we carry intangible assets with indefinite useful lives at cost less any subsequent accumulated impairment losses.

**Results of Operations**

The following summary consolidated statement of comprehensive income data for the years ended December 31, 2014, 2015 and 2016 have been derived from our audited consolidated financial statements included elsewhere in this annual report. Our historical results are not necessarily indicative of our results expected for any future periods.

| | Year Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2015 | | 2016 | | 2016 | |
| | RMB | % of Revenue | RMB | % of Revenue | RMB | % of Revenue | US$ | % of Revenue |
| | (in thousands, except percentages) | | | | | | | |
| **Summary Consolidated Statements of Profit or Loss and Other Comprehensive Income Data:** | | | | | | | | |
| Revenue | 3,334,355 | 100.0 | 2,445,756 | 100.0 | 2,249,533 | 100.0 | 324,000 | 100.0 |
| Cost of sales | (2,744,896) | (82.3) | (2,081,976) | (85.1) | (1,862,017) | (82.8) | (268,186) | (82.8) |
| Gross profit | 589,459 | 17.7 | 363,780 | 14.9 | 387,516 | 17.2 | 55,814 | 17.2 |
| Other income, gain and loss | 25,781 | 0.7 | 16,410 | 0.7 | 11,680 | 0.5 | 1,682 | 0.5 |
| Net exchange gain | 1,664 | 0 | 5,793 | 0.2 | 2,546 | 0.1 | 367 | 0.1 |
| Selling and distribution costs | (253,846) | (7.6) | (212,273) | (8.7) | (181,911) | (8.1) | (26,201) | (8.1) |
| Research and development expenses | (98,040) | (2.9) | (51,253) | (2.1) | (84,639) | (3.8) | (12,191) | (3.8) |
| Administrative expenses | (149,481) | (4.5) | (136,681) | (5.6) | (139,377) | (6.2) | (20,074) | (6.2) |
| Finance costs | (17,606) | (0.5) | (15,913) | (0.7) | (21,387) | (0.9) | (3,080) | (0.9) |
| Profit (loss) before taxation | 97,931 | 2.9 | (30,137) | (1.2) | (25,572) | (1.2) | (3,683) | (1.2) |
| Income tax (expense) credit | (18,704) | (0.6) | 1,570 | 0.1 | (352) | 0.02 | (51) | 0.02 |
| **Profit (loss) and total comprehensive income (loss) for the year** | 79,227 | 2.4 | (28,567) | (1.2) | (25,924) | (1.2) | (3,734) | (1.2) |
| **Profit (loss) and total comprehensive income (loss) attributable to:** | | | | | | | | |
| Owners of the Company | 79,227 | 2.4 | (28,567) | (1.2) | (25,924) | (1.2) | (3,734) | (1.2) |

***Year Ended December 31, 2015 Compared to Year Ended December 31, 2016***

*Revenue*. Revenue decreased by 8.0% from RMB2,445.8 million in 2015 to RMB2,249.5 million (US$324.0 million) in 2016. The decrease was mainly due to the downturn in the aftermarket segment caused by macro-economic conditions in the PRC.

PRC aftermarket sales: PRC aftermarket sales decreased by 14.5% from RMB1,194.2 million in 2015 to RMB1,021.3 million (US$147.1 million) in 2016. The aftermarket wheel segment remained weak as the logistic-used truck market remained sluggish and price competition stayed intense.

PRC OEM sales: PRC OEM sales increased by 5.2% from RMB814.6 million in 2015 to RMB856.7 million (US$123.4 million) in 2016. Overall OEM sales rose due to heavy-duty truck manufacturers increasing production in the second quarter of 2016, thereby enabling us to end the year with strong OEM sales related to truck sales, especially heavy-duty and medium-duty trucks. Total unit sales in the OEM market increased by 7.5% year-over-year.

International sales: International sales decreased by 15.0% from RMB436.9 million in 2015 to RMB371.5 million (US$53.5 million) in 2016. International sales remained weak in the first half of 2016 due to sluggish economies in Southeast Asian countries including Thailand, Indonesia and Myanmar. We adjusted pricing and increased our marketing campaign in Southeast Asian countries starting from the third quarter. However, affected by the global economic downturn and resulting uncertainty, demand from international markets continued to weaken.

Average selling prices of tubed and tubeless steel wheels sold in the PRC and internationally decreased from 2015 to 2016 mainly due to corresponding decreases in raw material prices.

*Cost of Sales*. Cost of sales decreased by 10.6% from RMB2,082.0 million in 2015 to RMB1,862.0 million (US$268.2 million) in 2016. The decrease was primarily due to a decrease in the price of steel, our principal raw material, during the period. As a percentage of revenue, cost of sales decreased from 85.1% in 2015 to 82.8% in 2016.

*Gross Profit*. As a result of the foregoing factors, gross profit increased by 6.5% from RMB363.8 million in 2015 to RMB387.5 million (US$55.8 million) in 2016, and gross profit margin increased from 14.9% in 2015 to 17.2% in 2016.

Our gross profit margin increased by 2.3% from 2015 to 2016. Although we proactively lowered our prices in the first three quarters of 2015 to maintain our market share, decreases in raw material costs continued and outpaced the decrease in our prices.

Our fourth quarter gross profit margin was 15.0%, lower than our gross profit margin for the year of 17.2%, primarily due to an increase in our costs of sales as a result of increases in raw material costs in the fourth quarter of 2016.

*Other Income, Gain and Loss*. Other income, gain and loss decreased by 28.7% from a gain of RMB16.4 million in 2015 to a gain of RMB11.7 million (US$1.7 million) in 2016. The decrease in gain was primarily due to (i) a RMB1.6 million (US$0.2 million) decrease in government grants and (ii) a RMB3.3 million (US$0.5 million) decrease in interest income, partially offset by a RMB0.2 million (US$33,127) decrease of net loss from sales of scrap materials in 2016 compared to 2015.

*Net Exchange Gain (Loss)*. We had net exchange gain of RMB2.5 million (US$0.4 million) in 2016 due to the depreciation of Renminbi in 2016, when we collected on certain U.S. dollar denominated accounts receivable, as compared to a gain of RMB5.8 million in 2015.

*Selling and Distribution Costs*. Selling and distribution costs decreased by 14.3% from RMB212.3 million in 2015 to RMB181.9 million (US$26.2 million) in 2016. The decrease was primarily due to (i) a RMB29.8 million (US$4.3 million) decrease in transportation costs because of increased efficiencies from centralized procurement and (ii) a RMB0.7 million (US$0.1 million) decrease in export charges, offset in part by a RMB1.4 million (US$0.2 million) increase in business promotion and advertising expenses. As a percentage of revenue, selling and distribution costs decreased from 8.7% in 2015 to 8.1% in 2016.

*Research and Development Expenses*. Research and development expenses increased by 65.0% from RMB51.3 million in 2015 to RMB84.6 million (US$12.2 million) in 2016. The increase was primarily because we incurred more material costs for R&D activities. As a percentage of revenue, research and development expenses increased from 2.1% in 2015 to 3.8% in 2016.

*Administrative Expenses*. Administrative expenses increased by 2.0% from RMB136.7 million in 2015 to RMB139.4 million (US$20.1 million) in 2016. The increase was primarily due to a RMB11.7 million (US$1.7 million) increase in depreciation expenses, partially offset by (i) a RMB3.7 million (US$0.5 million) decrease in staff costs and (ii) a RMB 2.0 million (US$0.3 million) decrease in professional expenses. As a percentage of revenue, administrative expenses increased from 5.6% in 2015 to 6.2% in 2016.

*Finance Costs*. Finance costs increased by 34.6% from RMB15.9 million in 2015 to RMB21.4 million (US$3.1 million) in 2016. The increase was primarily due to lesser amount of interests being capitalized in construction in progress in 2016.

*Income Tax (Expense) Credit*. Income tax expense in 2016 was RMB0.4 million (US$0.06 million), as compared to an income tax credit of RMB1.6 million in 2015.

*Loss for the Year*. As a result of the foregoing factors, loss for the year decreased from RMB28.6 million and a net loss margin of 1.2% in 2015 to a loss of RMB26.0 million (US$3.7 million) and a net loss margin of 1.2% in 2016.

***Year Ended December 31, 2014 Compared to Year Ended December 31, 2015***

*Revenue*. Revenue decreased by 26.6% from RMB3,334.4 million in 2014 to RMB2,445.8 million in 2015. The decrease was due to slow down in PRC economy and the anticipated change of emission standard that weakened the demand for vehicles.

PRC aftermarket sales: PRC aftermarket sales decreased by 28.3% from RMB1,665.2 million in 2014 to RMB1,194.2 million in 2015. The macro economic conditions of the PRC slowed down significantly in 2015. A reduction in construction and infrastructure related activities lead to a significant decline in demand for aftermarket wheels.

PRC OEM sales: PRC OEM sales decreased by 29.4% from RMB1,153.6 million in 2014 to RMB814.6 million in 2015. The slowdown in the macroeconomic conditions of the PRC resulted in a reduction in construction and infrastructure related activities which, in turn, lead to a significant decline in truck sales, especially in the medium- to heavy-duty truck sectors. PRC truck sale is estimated to have decreased by approximately 27.0% in 2015 compared to 2014. We proactively lowered our prices in the first three quarters of 2015 to maintain our market shares but began to raise our prices again in the fourth quarter, the historical high season.

International sales: International sales decreased by 15.3% from RMB515.6 million in 2014 to RMB436.9 million in 2015. We continued to open new markets such as Dubai and Pakistan in 2015. However, in early 2015, despite a higher unit sales, our international sales decreased as a result of the Renminbi depreciation and competitive pricing. In the second half of 2015, the slowdown of China also resulted in sufficient uncertainty on the world market and the developing countries in particular. The resulting currency depreciation in Southeast Asian countries, including Thailand, Indonesia and Myanmar, weakened the demand for our products from these markets.

Average selling prices of tubed and tubeless steel wheels sold in the PRC and internationally decreased from 2014 to 2015 mainly due to PRC market slow down and increased competition.

*Cost of Sales*. Cost of sales decreased by 24.2% from RMB2,744.9 million in 2014 to RMB2,082.0 million in 2015. The decrease was primarily due to a RMB558.1 million decrease in raw material costs, mainly as a result of decreased sales volume and a small decrease in the price of steel, our principal raw material, during the period. As a percentage of revenue, cost of sales increased from 82.3% in 2014 to 85.1% in 2015.

*Gross Profit*. As a result of the foregoing factors, gross profit decreased by 38.3% from RMB589.5 million in 2014 to RMB363.8 million in 2015, and gross profit margin decreased from 17.7% in 2014 to 14.9% in 2015.

Our gross profit margin decreased by 2.8% from 2014 to 2015 primarily due to (i) while there was a decrease in sales volume, depreciation and certain other fixed overhead costs remained, (ii) while we adjusted the salary and other compensations of our employees, the decrease in sales volume outpaced the decreases in salary and compensations, and (iii) we proactively lowered our prices in the first three quarters of 2015 to maintain our market shares, the decrease in our sale price outpaced the decreases in raw material costs.

Our fourth quarter gross profit margin was 19.2%, higher than our gross profit margin for the year of 14.9%, primarily due to (i) raising our prices in the fourth quarter, the traditional high season for our sales, (ii) the prices of raw materials continued to decrease in the fourth quarter, and (iii) we began commercial production of aluminum wheels, which enjoys a much higher profit margin than other steel products.

*Other Income, Gain and Loss*. Other income, gain and loss decreased by 36.3% from a gain of RMB25.8 million in 2014 to a gain of RMB16.4 million in 2015. The decrease in gain was primarily due to (i) a RMB5.0 million decrease in government grants, (ii) a RMB3.5 million decrease in interest income, and (iii) a RMB0.9 million increase of net loss from sales of scrap materials in 2015 compared to 2014.

*Net Exchange Gains (Losses)*. We had net exchange gains of RMB5.8 million in 2015 due to the depreciation of Renminbi in 2015, when we collected on certain U.S. dollar denominated accounts receivable, as compared to a gain of RMB1.7 million in 2014.

*Selling and Distribution Costs*. Selling and distribution costs decreased by 16.4% from RMB253.8 million in 2014 to RMB212.3 million in 2015. The decrease was primarily due to (i) a RMB31.7 million decrease in transportation and export costs, in line with our decrease in sales volume, (ii) a RMB3.2 million decrease in business promotion and advertising expenses and subsidies in line with a decrease in our promotional activities, (iii) a RMB2.6 million decrease in warranty compensation paid to our distributors, and (iv) a RMB2.5 million decrease in salaries, bonuses and related expenses. As a percentage of revenue, selling and distribution costs increased from 7.6% in 2014 to 8.7% in 2015.

*Research and Development Expenses*. Research and development expenses decreased by 47.7% from RMB98.0 million in 2014 to RMB51.3 million in 2015. The decrease was primarily due to a RMB38.8 million (US$6.0 million) decrease in raw material costs. As a percentage of revenue, research and development expenses increased from 2.9% in 2014 to 2.1% in 2015.

*Administrative Expenses*. Administrative expenses decreased by 8.6% from RMB149.5 million in 2014 to RMB136.7 million in 2015. The decrease was primarily due to (i) a RMB8.8 million decrease in salaries, bonuses and related expenses, and (ii) a RMB3.4 million decrease in consulting fees; partially offset by a RMB3.8 million increase in depreciation expenses. As a percentage of revenue, administrative expenses increased from 4.5% in 2014 to 5.6% in 2015.

*Finance Costs*. Finance costs decreased by 9.6% from RMB17.6 million in 2014 to RMB15.9 million in 2015. The decrease was primarily due to loan balances decreased in 2015.

*Income Tax (Expense) Credit*. Income tax expense decreased by 108.4% from an expense of RMB18.7 million in 2014 to a credit of RMB1.6 million in 2015. The decrease was primarily due to a decrease in our profit before taxation.

*Profit (loss) for the Year*. As a result of the foregoing factors, profit for the year decreased from a profit of RMB79.2 million and a net profit margin of 2.4% in 2014 to a loss of RMB28.6 million and a net loss margin of 1.2% in 2015.

## B. LIQUIDITY AND CAPITAL RESOURCES

### Liquidity and Capital Resources

To date, we have financed our operations primarily through cash flow from operations, bank borrowings, equity contributions by our shareholders and net proceeds from our initial public offering on May 17, 2011. As of December 31, 2016, we had RMB896.8 million (US$129.2 million) in cash and cash equivalents. Our cash and cash equivalents consist primarily of cash on hand and bank balances.

We had net current assets of RMB736.4 million, RMB732.9 million and RMB834.8 million (US$120.2 million) as of December 31, 2014, 2015 and 2016, respectively. We believe that our current levels of cash and cash flows from operations, combined with funds available to us through financing and the net proceeds from our initial public offering, will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, we may need additional cash resources in the future if we experience changed business conditions or other developments or if we wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If we determine that our cash requirements exceed our cash on hand, we may seek to issue debt or equity securities or obtain a credit facility. Any issuance of equity or equity-linked securities could dilute our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all.

Our bank borrowings were primarily obtained from two PRC banks for the purposes of general working capital and funding of capital expenditure needs. As of December 31, 2014, 2015 and 2016, our total bank borrowings amounted to RMB508.0 million, RMB558.0 million, and RMB558.0 million (US$80.4 million). We did not have any non-current borrowing. We do not have any variable-rate borrowings as of December 31, 2014, 2015 and 2016. In 2014, 2015 and 2016, our fixed-rate bank borrowings carried interest rates ranging from 5.6% to 6.0%, 4.35% to 5.6%, and 4.35% per annum, respectively.

A portion of our bank borrowings were secured. As of December 31, 2014, bank borrowings amounting to RMB130.0 million were secured by pledged bank deposits, property, plant and equipment and prepaid lease payments, and the remaining bank borrowings of RMB378.0 million were unsecured. As of December 31, 2015, bank borrowings amounting to RMB180.0 million were secured by pledged bank deposits, property, plant and equipment and prepaid lease payments, and the remaining bank borrowings of RMB378.0 million were unsecured. As of December 31, 2016, bank borrowings amounting to RMB180 million (US$25.9 million) were secured by (i) pledged bank deposits, (ii) property, plant and equipment, and (iii) prepaid lease payments; and the remaining bank borrowings of RMB378.0 million (US$54.4 million) were unsecured.

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2016 |
| | RMB | RMB | RMB | US$ |
| | (in thousands) | | | |
| Variable-rate bank borrowings | — | — | — | — |
| Fixed-rate bank borrowings repayable: | | | | |
| Within one year | 508,000 | 558,000 | 558,000 | 80,369 |
| Total bank borrowings | 508,000 | 558,000 | 558,000 | 80,369 |
| Less: Amounts due within one year shown under current liabilities | (508,000) | (558,000) | (558,000) | (80,369) |
| | — | — | — | — |

In addition, certain of our bank borrowings were guaranteed by our subsidiaries, namely Zhengxing Langfang Wheel, Zhengxing Chengdu Wheel, Zhengxing Hefei Wheel and Zhengxing Benxi Wheel, pursuant to two guarantee agreements entered into in April 2016 and June 2016. As of December 31, 2014, 2015 and 2016, these guaranteed bank borrowings amounted to RMB508.0 million, RMB558.0 million and RMB558.0 million (US$80.4 million), respectively.

We plan to repay these bank borrowings with cash generated from our operating activities in the event we are unable to obtain extensions of these facilities or alternative funding in the future. As of December 31, 2014, 2015 and 2016, we had available undrawn one-year borrowing facilities from two PRC banks of RMB1,401.0 million, RMB1,660.0 million and RMB1,621.0 million (US$233.5 million), respectively. We have historically been able to repay our bank borrowings when they become due. We expect to be able to obtain additional bank borrowings should we need additional funding for working capital and capital expenditures.

***Cash Flow***

The following table sets forth a summary of our cash flow for the periods indicated:

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2016 |
| | RMB | RMB | RMB | US$ |
| | (in thousands) | | | |
| Net cash from operating activities | 101,579 | 293,807 | 179,167 | 25,803 |
| Net cash used in investing activities | (215,846) | (59,627) | (63,446) | (9,137) |
| Net cash (used in) from financing activities | (77,388) | 24,702 | (35,631) | (5,132) |
| Net increase (decrease) in cash and cash equivalents | (191,655) | 258,882 | 80,090 | 11,534 |
| Cash and cash equivalent at beginning of the year | 748,744 | 556,990 | 817,247 | 117,708 |
| Effect of foreign exchange rate changes | (99) | 1,375 | (538) | (76) |
| Cash and cash equivalent at end of the year | 556,990 | 817,247 | 896,799 | 129,166 |

*Operating Activities*

We derive cash inflow from operations primarily through the receipt of payments for the sales of our products. Our cash outflow from operations is used primarily for raw material purchases, staff costs and miscellaneous expenses used in operating activities. Our net cash from operating activities reflects our profit(loss) for the year, as adjusted for non-cash items such as depreciation and amortization, and the effects of changes in working capital such as increases or decreases in trade and other receivables and prepayments and trade and other payables and accruals, and increases or decreases in inventories.

Net cash from operating activities was RMB179.2 million (US$25.8 million) in 2016, which was primarily attributable to (i) our net loss of RMB25.6 million (US$3.7 million), as adjusted for depreciation of property, plant and equipment of RMB154.8 million (US$22.3 million), (ii) an increase in trade and other payables and accruals of RMB67.4 million (US$9.7 million), (iii) a decrease in inventory of RMB43.2 million (US$6.2 million); partially offset by an increase in trade and other receivables and prepayments of RMB82.4 million (US$11.9 million) primarily due to increased sales in the fourth quarter of 2016 and increased prepayments for certain raw materials.

Net cash from operating activities was RMB293.8 million in 2015, which was primarily attributable to (i) a decrease in trade and other receivables and prepayments of RMB306.0 million primarily due to reduced sales and lower prepayment to raw material suppliers, (ii) decrease in inventory of RMB200.2 million, and (iii) deprecation of property, plant and equipment of RMB131.3 million; partially offset by a decrease in trade and other payables and accruals of RMB335.7 million primarily due to decreased sales in 2015.

Net cash from operating activities was RMB101.6 million in 2014, which was primarily attributable to (i) profit before taxation of RMB97.9 million (US$15.8 million); (ii) depreciation of property, plant and equipment of RMB128.8 million, (iii) a decrease in trade and other receivables and prepayments of RMB56.5 million primarily due to decreased sales in 2014; partially offset by a decrease in trade and other payables and accruals of RMB184.9 million primarily due to decreased sales in 2014.

*Investing Activities*

Net cash used in investing activities was RMB63.4 million (US$9.1 million) in 2016, which was primarily attributable to(i) placement of fixed bank deposits with maturity periods over three months of RMB720.0 million (US$103.7 million) and pledged bank deposits of RMB20.3 million (US$2.9 million), (ii) purchase of property, plant and equipment of RMB15.1 million (US$2.2 million) and (iii) deposits paid for acquisition of property, plant and equipment of RMB14.5 million (US$2.1 million), partially offset by (A) withdrawal of fixed bank deposits with maturity periods over three months of RMB690.0 million (US$99.4 million) and (B) withdrawal of pledged bank deposits of RMB16.4 million (US$2.4 million).

Net cash used in investing activities was RMB59.6 million in 2015, which was primarily attributable to (i) placement of fixed bank deposits with maturity periods over three months of RMB520.0 million, (ii) deposits paid for acquisition of property, plant and equipment of RMB70.1 million, (iii) purchase of property, plant and equipment of RMB20.5 million in connection with the expansion of our manufacturing facilities in Chengdu, Sichuan Province and the construction of a new aluminum wheel manufacturing facility, and (iv) placement of pledged bank deposits of RMB2.9 million; partially offset by (A) withdrawal of fixed bank deposits with maturity periods over three months of RMB520.0 million and (B) withdrawal of pledged bank deposits of RMB33.8 million.

Net cash used in investing activities was RMB215.8 million in 2014, which was primarily attributable to (i) placement of fixed bank deposits with maturity periods over three months of RMB420.0 million, (ii) deposits paid for acquisition of property, plant and equipment of RMB85.6 million, (iii) purchase of property, plant and equipment of RMB47.9 million in connection with the expansion of our manufacturing facilities in Chengdu, Sichuan Province and the construction of a new aluminum wheel manufacturing facility, and (iv) placement of pledged bank deposits of RMB9.5 million; partially offset by (A) withdrawal of fixed bank deposits with maturity periods over three months of RMB320.0 million and (B) withdrawal of pledged bank deposits of RMB27.0 million (US$4.4 million).

*Financing Activities*

Net cash used in financing activities was RMB35.6 million (US$5.1 million) in 2016, which was attributable to (i) repayment of bank borrowings of RMB558.0 million (US$80.4 million), (ii) interest paid of RMB25.4 million (US$3.7 million) and (iii) repayment to a related party of RMB14.7 million (US$2.1 million) and offset by new bank borrowings raised of RMB558.0 million (US$80.4 million) and advance from a related party of RMB4.5 million (US$0.6 million).

Net cash from financing activities was RMB24.7 million in 2015, which was attributable to (i) new bank borrowings raised of RMB558.0 million and (ii) advance from related parties of RMB6.2 million; partially offset by (i) repayment of bank borrowings of RMB508.0 million and (ii) interest paid of RMB31.5 million.

Net cash used in financing activities was RMB77.4 million in 2014, which was attributable to (i) repayment of bank borrowings of RMB558.0 million and (ii) interest paid of RMB32.9 million; partially offset by new bank borrowings raised of RMB508.0 million.

**Capital Expenditures**

Please refer to Item 4A “Information on the Company—History and Development of the Company—Our Initial Public Offering and Corporate Information.”

## C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

Please refer to Item 4B “Information on the Company—Business Overview—Research and Development” and “—Intellectual Property.”

## D. TREND INFORMATION

Other than as described elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material adverse effect on our revenue, income from continuing operations, profitability, liquidity or capital resources, or that would cause our reported financial information not necessarily to be indicative of future operation results or financial condition.

## E. OFF-BALANCE SHEET ARRANGEMENTS

We do not engage in trading activities involving non-exchange traded contracts or interest rate swap transactions or foreign currency forward contracts. In the ordinary course of our business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

## F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of December 31, 2016:

| | Contractual Obligations | | | | | |
|---|---|---|---|---|---|---|
| | Less than 1 Year RMB | 1-3 Years RMB | 3-5 Years RMB | More than 5 Years RMB | Total RMB | Total US$ |
| | | | (in thousands) | | | |
| Bank borrowings | 558,000 | — | — | — | 558,000 | 80,369 |
| Operating lease commitment | — | — | — | — | — | — |
| Purchase commitment | — | — | — | — | — | — |
| Capital commitment | 1,965 | — | — | — | 1,965 | 283 |
| Total | 559,965 | — | — | — | 559,965 | 80,652 |

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of March 31, 2017:

| Name | Age | Position |
|---|---|---|
| Jianhui Lai | 51 | Chairman of the board of directors and chief executive officer |
| Junqiu Gao | 50 | Director, deputy chief executive officer and chief sales and marketing officer |
| William John Sharp | 75 | Independent director |
| Xiandai Zhang | 48 | Independent director |
| Yichun Zhang | 83 | Independent director |
| Martin Cheung | 48 | Chief financial officer |
| Xichuan Lai | 49 | Financial controller |
| Guohe Zhang | 71 | Chief technology officer |
| Jiangjun Yang | 40 | Chief production officer |

The business address of our directors and executive officers is c/o No. 1608, North Circle Road State Highway, Zhangzhou, Fujian Province 363000, People's Republic of China.

*Mr. Jianhui Lai* is our founder, chairman of our board of directors and chief executive officer. Mr. Lai has over 20 years of experience in the commercial vehicle wheel industry in the PRC, particularly in managing vehicle wheel businesses. Prior to founding us in 2003, Mr. Lai was factory manager of Zhangzhou XiangchengZhengxing Automobile Wheel Factory from 1996 to 2003, factory manager of Fujian PingheGuanxi Automobile Wheel Factory from 1993 to 1996, and factory manager of Pinghe Automobile Tire and Bicycle Repair Depot from 1988 to 1993. Mr. Lai was awarded The Outstanding Private Entrepreneur in the PRC in 2004 and The Outstanding Individual of the PRC Automotive Industry in 2008, in recognition of his business achievements and stature in the industry. Mr. Lai is also the founder of two schools (providing primary school to high school education) in the PRC, namely PingheZhengxing School and Zhangzhou Zhengxing School.

*Mr. Junqiu Gao* has served as our director since February 2009, and as our deputy chief executive officer and chief sales and marketing officer since June 2008. Mr. Gao also served as our marketing and sales manager from 2004 to 2008. Mr. Gao has over 20 years of marketing and sales and management experience in the commercial vehicle wheel and machinery industry in the PRC. Prior to joining us in 2004, Mr. Gao was head of the marketing and sales department of Zhangzhou XiangchengZhengxing Automobile Wheel Factory from 1999 to 2004 and was a regional product sales manager of Xuzhou Press System Company Limited from 1993 to 1999. Mr. Gao also served as an electrical design technician and product after-sales engineer of Xuzhou Press System Company Limited from 1990 to 1993. Mr. Gao is a senior engineer and received his bachelor's degree in industrial electrical automation from Hefei University of Technology in 1990.

*Mr. William John Sharp* has served as our independent director since May 2011. Mr. Sharp has over 40 years of experience in the tire manufacturing industry. Since 2001, Mr. Sharp has served as president of Global Industrial Consulting, a consulting firm. Since 2005, Mr. Sharp has been a director of Xingda International Holdings Limited, a Hong Kong Stock Exchange listed company which manufactures components for radial tires where he serves as chairman of the compensation committee and a member of the audit committee. Since 2008, Mr. Sharp has been a director of Acquity Group LLC, a multi-channel commerce and digital marketing company where he serves as a member of the audit and compensation committees. From 1998 to 2012, Mr. Sharp was a director of Ferro Corporation, a New York Stock Exchange listed company that produces performance materials where he served as a member of the compensation committee. From 2009 to February 2012, Mr. Sharp was a director of Exceed Co. Ltd., a NASDAQ listed company that produces footwear, apparel and accessories where he served as chairman of the audit committee and the compensation committee. Mr. Sharp joined The Goodyear Tire & Rubber Company in 1964 and was the president of its North America Tire group from 1999 to 2000. Prior to that, he was the president of its Global Support Operations from 1996 to 1999, and the president of Goodyear Europe, Middle East and Africa from 1992 to 1996. Mr. Sharp received his bachelor of science degree in industrial engineering from Ohio State University in 1963.

*Mr. Xiandai Zhang* has served as our independent director since November 2014. Mr. Zhang is the director of taxation and a legal representative of Quanzhou Fangzheng Taxation since 2005. From 2000 to 2005, Mr. Zhang was the deputy director and an accountant at Quanzhou Fangzheng Accounting. Previously, he was the deputy director and accountant in the City of Shishi and an auditor in Yong'An City. Mr. Zhang is a Certified Public Accountant and Chartered Tax Adviser in China. He is also qualified as an economist and senior auditor. Mr. Zhang has over 20 years of experience in auditing, tax and accounting including 6 years of national auditing, 16 years experience with accounting and tax firms, and 12 years as an auditor or tax project manager. Mr. Zhang received his bachelor's degree in accounting from Fuzhou University in 1992.

*Mr. Yichun Zhang* has served as our independent director since May 2011. Mr. Zhang is the head of the Financial Research Institute of Xiamen University. Since 1960, Mr. Zhang has been a lecturer of the economics department, associate professor and deputy head of the finance and fiscal department of the economics faculty, professor, supervisor of doctoral candidates and department head of the finance and fiscal department, professor, supervisor of doctoral candidates and faculty head of the economics faculty, and professor, supervisor of doctoral candidates and head of the fiscal research institute, all of Xiamen University. In addition, Mr. Zhang has served as an independent director of CNFOL.COM Company Limited, a PRC online financial information provider, Shanghai CiFi Company Limited, a PRC property developer, and Shenzhen Minsheng Royal Fund Management Co., Ltd., a PRC fund management company (where he serves as a member of the audit committee), since 2007. Mr. Zhang also served as an independent director of Zhengzhou Gas Company Limited, a Hong Kong Stock Exchange listed company, from 2002 to 2008, and Fujian Zhonghe Company Limited, a Shenzhen Stock Exchange listed company, from 2002 to 2008. Mr. Zhang served as an external supervisor of Industrial Bank Company Limited, a Shanghai Stock Exchange listed company, from 2004 to 2007. Mr. Zhang received his bachelor's degree in economics from Xiamen University in 1960.

*Mr. Martin Cheung* has over 13 years of experience in accounting and finance with publicly and privately held companies. Mr. Cheung was most recently Chief Financial Officer of Profound Heavy Company Limited, and he has been Finance Director of Norstar Founders Group Limited (2339: HK), recently renamed Beijing West Industry International, and he was the Corporate Finance Director at Grant Thornton Corporate Finance Limited. Additionally, Mr. Cheung held management positions at Japan Asia Securities and Daiwa Securities. Mr Cheung currently is an independent director of Boyaa International Ltd., (434.HK) and Co-Prosperity Holdings Limited (707.HK). Mr. Cheung was a senior auditor at Deloitte Touche Tohmatsu. Mr. Cheung is a Certified Public Accountant, with a master's degree in Accounting from Curtin University of Technology (Australia), a master's of Science degree in Finance (Investment Management) from the Hong Kong University of Science and Technology, and a bachelor's degree in Social Sciences from the University of Hong Kong.

*Mr. Xichuan Lai* has served as our financial controller since August 2006. Mr. Lai also served as our financial manager from 2004 to 2006. Mr. Lai has over 18 years of finance experience. Prior to joining us in 2004, Mr. Lai served as manager of the finance department of Fujian Motor Industry Group Company from 1999 to 2004. Mr. Lai also served as an accountant of Fujian Automobile Factory from 1992 to 1999. Mr. Lai is a senior accountant and received his bachelor's degree in auditing from Fuzhou University in 1992.

*Mr. Guohe Zhang* has served as our chief technology officer since 2003. Mr. Zhang has over 40 years of research and production technology management experience in the commercial vehicle wheel and machinery industry in the PRC. Prior to joining us in 2003, Mr. Zhang was the deputy chief engineer and the director of the wheel research institution of Zhenjiang Jinhuan Group Co., Ltd. from 1981 to 2003. Mr. Zhang received the Jiangsu New Product Development Golden Bull Award in 1990, in recognition of his achievements in research and development. Mr. Zhang is a senior engineer and received his bachelor's degree in mechanical design and manufacturing from Jiangsu University in 1970.

*Mr. Jiangjun Yang* has served as our chief production officer since January 2007. Mr. Yang also served as our production manager from 2005 to 2006 and our head of production line from 2003 to 2005. Mr. Yang has over 12 years of production and management experience in the commercial vehicle wheel industry in the PRC. Prior to joining us in 2003, Mr. Yang worked at Zhangzhou XiangchengZhengxing Automobile Wheel Factory from 1998 to 2003. Mr. Yang completed his junior college study in administrative management at Xiamen University in 2001.

## B. Compensation

### Terms of Directors and Executive Officers

Our executive officers are elected by and serve at the discretion of our board of directors. Our directors may be subject to a term of office if fixed by the resolution of shareholders or the resolution of directors, as the case may be, appointing them. At our annual general meeting of shareholders, our shareholders are asked to elect the directors nominated to serve for the ensuing year and until their successors are elected and duly qualified, or until such director's earlier death, bankruptcy, insanity, resignation or removal. Our directors may resign from their office by giving written notice to us. Our directors may be removed from office, with or without cause, by a resolution of shareholders. For information regarding the period during which our officers and directors have served in their respective positions, please refer to Item 6A. "Directors and Senior Management."

**Employment and Indemnification Agreements**

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment (i) with cause effective immediately upon delivery of written notice to the executive officer, or (ii) without cause by giving the executive a three months' prior written notice. Termination for cause may occur for the continued failure by an executive officer substantially to perform his duties and obligations to us, fraud or material dishonesty against us, or a conviction or plea of guilty for the commission of a felony or other crime. In the event of the termination by us without cause, we agree to pay the executive officer certain compensation for a certain period following the date of termination. The executive officer may also voluntarily terminate his employment with us upon not less than three months' prior written notice to us.

Each executive officer has agreed, for the term of employment with us and thereafter, to keep and retain in the strictest confidence all our confidential information that the executive may develop or learn in the course of employment with us. Our executive officers also agree to assign to us all right, title and interest in and to all patents, trademarks, copyrights, business secrets, operation secrets or know-how, which they may solely or jointly conceive, discover, develop or reduce to practice during the period of employment. Moreover, each of our executive officers has agreed, for the term of employment with us and for a period of six months or one year thereafter, (i) to not engage in any business in competition with our business, (ii) to not solicit any entity that has been our customer within two years before termination of employment or our potential customer within one year before termination of employment, and (iii) to not solicit for employment, hire or otherwise engage anyone who has been our employee, member, or partner within the previous year.

We have entered into indemnification agreements with our directors and executive officers to indemnify them to the fullest extent permitted by applicable law and our memorandum and articles of association, from and against all costs, charges, expenses, liabilities and losses incurred in connection with any litigation, suit, or proceeding to which such director or executive officer is or is threatened to be made a party, witness, or other participant.

**Compensation of Directors and Executive Officers**

In 2016, the aggregate cash compensation, including basic salary and bonus and other benefits, to all of our directors and our executive officers was RMB4.1 million (US$0.6 million). On March 30, 2012, we also granted restricted share unit awards to each of our independent directors which vested on March 25, 2013. ADSs, representing less than 1% of our total outstanding ordinary shares, were given to the directors in settlement of such awards upon vesting. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, housing fund, employment and other statutory benefits.

**2011 Share Incentive Plan**

Our board of directors and shareholders approved and adopted our 2011 Share Incentive Plan in February 2011. Under the 2011 Share Incentive Plan, a total of 25,000,000 ordinary shares have been reserved for issuance. A general description of the terms of the 2011 Share Incentive Plan is set forth below:

***Purpose of the Plan***

The purpose of the 2011 Share Incentive Plan is to attract and retain the best available personnel, to provide additional incentive to employees, directors and consultants and to promote the success of our business.

***Eligibility***

Under the 2011 Share Incentive Plan, awards may be granted to employees, directors or consultants of our company, our subsidiaries or our parent corporation (as defined therein).

***Types of Awards***

Awards that can be granted under the 2011 Share Incentive Plan include, among others:

- options to purchase our ordinary shares,
- share appreciation rights, the value of which is measured by appreciation in the value of our ordinary shares,
- dividend equivalent rights, the value of which is measured by the dividends paid with respect to our ordinary shares,

- restricted shares, and
- restricted share units.

Under the 2011 Share Incentive Plan, we may also grant incentive stock options, or ISOs, within the meaning of the U.S. Internal Revenue Code of 1986, as amended, to employees who are located in the United States or who are U.S. taxpayers.

***Plan Administration***

Our board of directors designated our compensation committee to administer the 2011 Share Incentive Plan. References in this subsection to our board of directors include our compensation committee designated by our board of directors to administer the 2011 Share Incentive Plan.

***Awards***

Awards granted under the 2011 Share Incentive Plan are evidenced by award agreements that set forth the terms, conditions and limitations for each award.

***Acceleration of Awards upon Corporate Transactions or Change in Control***

The 2011 Share Incentive Plan provides for acceleration of awards upon the occurrence of specified corporate transactions or changes in control. Our board of directors will have the authority, exercisable either in advance of any actual or anticipated corporate transaction or change in control or at the time of an actual corporate transaction or change in control and exercisable at the time of the grant of an award under the 2011 Share Incentive Plan or any time while an award remains outstanding, to provide for the full or partial automatic vesting and exercisability of one or more outstanding unvested awards under the 2011 Share Incentive Plan and the release from restrictions on transfer and repurchase or forfeiture rights of such awards in connection with a corporate transaction or change in control, on such terms and conditions as our board of directors may specify. Our board of directors also will have the authority to condition any such award vesting and exercisability or release from such limitations upon the subsequent termination of the continuous service of the grantee within a specified period following the effective date of the corporate transaction or change in control. Our board of directors may provide that any awards so vested or released from such limitations in connection with a change in control, shall remain fully exercisable until the expiration or sooner termination of the award.

***Exercise or Purchase Price and Term of Awards***

Our board of directors determines the exercise price, purchase price, expiration date, vesting schedule and other terms and conditions of each grant of award.

***Transferability***

Under the 2011 Share Incentive Plan, ISOs may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the grantee only by the grantee. Other awards shall be transferable (i) by will and by the laws of descent and distribution and (ii) during the lifetime of the grantee, to the extent and in the manner authorized by our board of directors. The 2011 Share Incentive Plan permits the designation of beneficiaries by holders of awards, including ISOs.

***Termination of Service***

The period following the termination of a grantee's employment or service with us during which the grantee can exercise his or her option, if any, will be specified in the award agreement, and it cannot end later than the last day of the specified period or the last day of the original term of the award. Any restricted shares and restricted share units that are at the time of termination subject to restrictions will generally be forfeited and automatically transferred to and reacquired by us at no cost to us, unless otherwise specified in the applicable award agreement.

***Amendment or Termination of the 2011 Share Incentive Plan***

Under the 2011 Share Incentive Plan, our board of directors may at any time amend, suspend, or terminate the 2011 Share Incentive Plan in any respect, except that no amendment will be effective without shareholder approval if such approval is required to comply with any law, regulation or stock exchange rule or our memorandum and articles of association and no suspension or termination may adversely affect any award previously granted. Unless terminated earlier, the 2011 Share Incentive Plan will terminate automatically in 2021.

## C. Board Practices

### Duties of Directors

Under British Virgin Islands law, our directors have a fiduciary duty to act honestly, in good faith and in what the director believes to be in our best interests. Our directors also have a duty to exercise the care, diligence and skill that a reasonable director would exercise in the same circumstances taking into account, without limitation: (a) the nature of the company, (b) the nature of the decision, and (c) the position of the director and the nature of the responsibilities undertaken by him. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association and the BVI Act.

The functions and powers of our board of directors include, among others:

- convening shareholders' general meetings and reporting its work to shareholders at such meetings;
- issuing authorized but unissued shares and redeeming or purchasing outstanding shares of our company;
- declaring dividends and other distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registering of such shares in our share register.

### Committee of the Board of Directors

We have established three committees under the board of directors: the audit committee, the compensation committee and the nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

#### *Audit Committee*

Our audit committee consists of Messrs. William John Sharp, Xiandai Zhang and Yichun Zhang. Mr. Sharp is the chairman of our audit committee and meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Our board of directors has determined that Messrs. Sharp, Zhang and Zhang are "independent directors" within the meaning of Section 303A of the New York Stock Exchange Listed Company Manual, or NYSE Listed Company Manual, and meet the criteria for independence set forth in Section 10A(m)(3) of the Exchange Act. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting our independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by our independent registered public accounting firm;
- reviewing with our independent registered public accounting firm any audit issues or difficulties and management's response;
- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and our independent registered public accounting firm;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of significant control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time; and
- meeting separately and periodically with management, our internal auditor and independent registered public accounting firm.

*Compensation Committee*

Our compensation committee consists of Messrs. Yichun Zhang, Jianhui Lai and William John Sharp, and is chaired by Mr. Zhang. Our board of directors has determined that each of Messrs. Zhang and Sharp of the compensation committee is an "independent director" within the meaning of Section 303A of the NYSE Listed Company Manual. Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- approving and overseeing the compensation package for our executive officers;
- reviewing and making recommendations to the board with respect to our compensation policies and the compensation of our directors; and
- reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

*Nominating and Corporate Governance Committee*

Our nominating and corporate governance committee consists of Messrs. Jianhui Lai, Junqiu Gao and William John Sharp, and is chaired by Mr. Lai. Our board of directors has determined that Mr. Sharp of the nominating and corporate governance committee is an "independent director" within the meaning of Section 303A of the NYSE Listed Company Manual. The nominating and corporate governance committee assists the board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy of the board;
- reviewing annually with the board the current composition of the board in light of the characteristics of independence, age, skills, experience and availability of service to us;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

**Interested Transactions**

A director may vote with respect to any contract or transaction in which he is interested, provided that the nature of the interest of any directors in such contract or transaction is disclosed by him at or prior to the board's consideration and vote on such contract or transaction.

**Remuneration and Borrowing**

The directors may determine remuneration to be paid to the directors. The compensation committee assists the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whether outright or as security for any debt obligations of our company or of any third party.

**Qualification**

There is no shareholding qualification for directors.

### D. Employees

We had 4,719, 4,239 and 4,162 employees as of December 31, 2014, 2015 and 2016, respectively. The following table sets forth the number of our employees categorized by function as of December 31, 2016:

| Function | Number |
|---|---|
| Manufacturing | 3,012 |
| Research and development and technology | 284 |
| Sales and marketing | 235 |
| Quality control | 216 |
| Management and administration | 415 |
| Total | 4,162 |

All of our employees are stationed in the PRC. We do not have any part-time employees.

In compliance with the relevant PRC labor laws, we enter into individual employment contracts with our employees typically covering matters such as wages, bonuses, employee benefits, workplace safety, confidentiality obligations and non-competition (for our executive officers and employees involved in technology and research and development), and grounds for termination. In addition, we provide various healthcare benefits and insurance to our employees and participate in various employee benefit plans in accordance with applicable laws and regulations. These employment contracts generally have a term of three years. The total amount of contributions we made to employee benefit plans in 2014, 2015 and 2016 was RMB55.0 million, RMB52.5 million and RMB48.9 million (US$7.0 million), respectively. We invest in continuing education and training programs for our management staff and other employees to upgrade their skills and knowledge continuously. We provide our employees with internal training in various areas.

We have a labor union that protect employees' rights, help fulfill our economic objectives, encourage employee participation in management decisions and assist in mediating disputes between us and union members. To date, we have not experienced any strikes, labor disputes or industrial action which had a material effect on our business, and consider our relations with our employees to be good.

### E. Share Ownership

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares as of March 31, 2017 (unless otherwise indicated) by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5.0% of our ordinary shares.

Beneficial ownership is determined in accordance with rules and regulations of the SEC and includes voting or investment power with respect to the ordinary shares. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. In computing the number of shares beneficially owned by a person or the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days of March 31, 2017, including through the exercise of any option, warrant, or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

| | Ordinary Shares Beneficially Owned (1) | |
|---|---|---|
| | Number | Percentage (%) |
| **Directors and Executive Officers:** | | |
| Jianhui Lai (2) | 143,587,200 | 69.53 |
| Junqiu Gao (3) | 143,647,200 | 69.56 |
| William John Sharp | * | * |
| Yichun Zhang | * | * |
| Xiandai Zhang | — | — |
| Xichuan Lai | — | — |
| Guohe Zhang | — | — |
| Jiangjun Yang | — | — |
| All directors and executive officers as a group | 144,931,495 | 70.18 |
| **Principal Shareholders:** | | |
| Newrace Limited (2) | 143,587,200 | 69.53 |
| Richburg Holdings Limited (4) | 10,479,116 | 5.07 |
| Capital Research Global Investors (5) | 10,322,000 | 5.00 |

* Less than 1% of our total outstanding ordinary shares.

(1) Percentage of beneficial ownership of each listed person or group is based on 206,500,000 ordinary shares outstanding as of March 31, 2017 and the ordinary shares underlying all options held by such person or group that have vested or will vest within 60 days after March 31, 2017, each as held by such person or group as of that date.

(2) Newrace Limited is a company incorporated under the laws of the British Virgin Islands and is wholly-owned by Mr. Jianhui Lai, our founder, chairman and chief executive officer. The registered address of Newrace Limited is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands.

(3) Represents (i) 143,587,200 ordinary shares held by Newrace Limited and (ii) 60,000 ordinary shares owned by Mr. Junqiu Gao. Mr. Gao, a director of Newrace Limited, disclaims beneficial ownership of 143,587,200 ordinary shares held by Newrace Limited.

(4) Based solely upon information contained in the Schedule 13D filed by Richburg Holdings Limited with the SEC on November 26, 2013. Richburg Holdings Limited is a company incorporated under the laws of the British Virgin Islands and is jointly owned by (i) RichWise Investment Financial Limited, a British Virgin Islands company owned by Mr. Yuanzhe Huang and RichWise International Investment Group Limited, a British Virgin Islands company wholly-owned by RichWise International Group Limited, a British Virgins Islands company wholly-owned by Mr. Jinlei Shi, (ii) RichWise Capital International Limited, a British Virgins Islands company owned by RichWise International Group Limited, Fortune Dynamic Investment Limited, a British Virgin Islands company wholly-owned by Mr. Yuanzhe Huang, and IMV & Associates, Ltd., a British Virgin Islands company wholly-owned by Mr. Jia Yao, and (iii) IMV & Associates, Ltd. The registered address of Richburg Holdings Limited is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands.

(5) Based solely upon information contained in the Schedule 13G/A filed by Capital Research Global Investors, a division of Capital Research and Management Company, with the SEC on February 16, 2016. The address of the principal business office of Capital Research Global Investors is 333 South Hope Street, Los Angeles, CA 90071.

As of March 31, 2017, there were two ordinary shareholders of record with an address in the United States, including The Bank of New York Mellon, depositary of our ADS program, which held 62,499,988 ordinary shares as of that date, representing 30.27% of our outstanding ordinary shares.

None of our shareholders has different voting rights from any other shareholder. To our knowledge, except as disclosed above, we are not owned or controlled, directly or indirectly, by another corporation, by any foreign government or by any other natural or legal person or persons, severally or jointly, and we are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

## Item 7. Major Shareholders and Related Party Transactions

### A. Major Shareholders

Please refer to Item 6E “Directors, Senior Management and Employees—Share Ownership.”

### B. Related Party Transactions

**Guarantees Provided by Our Subsidiaries**

Certain of our bank borrowings were guaranteed by our subsidiaries, namely Zhengxing Langfang Wheel, Zhengxing Chengdu Wheel, Zhengxing Hefei Wheel and Zhengxing Benxi Wheel, pursuant to three guarantee agreements entered into in January 2008 and 2009. As of December 31, 2014, 2015 and 2016, these guaranteed bank borrowings amounted to RMB508.0 million, RMB558.0 million and RMB558.0 million (US$80.4 million), respectively.

**Restricted Shares Granted to Mr. Yifan Li by Newrace Limited**

Pursuant to a letter agreement for grant of restricted shares between Newrace Limited and Mr. Yifan Li, our former chief financial officer, dated December 17, 2010, Mr. Li was granted 516,000 ordinary shares, representing 0.25% of our ordinary shares outstanding immediately after the completion of our initial public offering, beneficially owned by Newrace Limited in consideration for his serving as our chief financial officer. Of these restricted shares, 35.0%, 25.0% and 20.0% vested on the date our initial public offering was completed, on December 31, 2011 and on December 31, 2012, respectively, and 20.0% vested on December 31, 2013.

### C. Interests of Experts and Counsel

Not applicable.

## Item 8. Financial Information

### A. Consolidated Statements and Other Financial Information

Please refer to Item 18 "Financial Statements" for our audited consolidated financial statements filed as part of this annual report.

### A.7 Legal Proceedings

We are currently not a party to, and are not aware of any threat of, any legal, arbitral or administrative proceedings, which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations. We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business.

### A.8 Dividend Policy

In March 2012, our board of directors declared a dividend to our shareholders in the amount of US$3.1 million, which has been paid to holders of ordinary shares and ADSs. Our board of directors has complete discretion on whether to pay dividends, after considering our operations, earnings, cash flows, capital requirements and surplus, general financial condition, contractual restrictions, regulatory limitations on our PRC and other subsidiaries' ability to distribute dividends to us and other factors that the board of directors may deem relevant. Cash dividends on our ADSs, if any, will be paid in U.S. dollars.

We are a holding company incorporated in the British Virgin Islands, and our ability to pay dividends to our shareholders depends upon dividends that we receive from our subsidiaries. Please refer to Item 3D "Key Information—Risk Factors—Risks Relating to Doing Business in the PRC—We rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business."

Holders of our ADSs will be entitled to receive dividends, if any, subject to the terms of the deposit agreement (including the fees and expenses payable thereunder), to the same extent as the holders of our ordinary shares. Cash dividends will be paid to the depositary in U.S. dollars, which will distribute them to the holders of ADSs according to the terms of the deposit agreement. Other distributions, if any, will be paid by the depositary to the holders of ADSs in any means it deems legal, fair and practical.

### B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## Item 9. The Offer and Listing

### A. Offer and Listing Details

Our ADSs, each representing four of our ordinary shares, are listed on the New York Stock Exchange under the symbol "ZX." Trading in our ADSs commenced on May 11, 2011.

The following table provides the high and low trading prices for our ADSs on the New York Stock Exchange for the period indicated.

| | Price per ADS (US$) | |
|---|---|---|
| | **High** | **Low** |
| **Annual High and Low** | | |
| 2013 | 4.27 | 2.11 |
| 2014 | 3.15 | 1.01 |
| 2015 | 1.46 | 0.64 |
| 2016 | 1.49 | 0.43 |
| **Quarterly Highs and Lows** | | |
| First Quarter 2015 | 1.46 | 1.07 |
| Second Quarter 2015 | 1.45 | 1.08 |
| Third Quarter 2015 | 1.19 | 0.72 |
| Fourth Quarter 2015 | 1.00 | 0.64 |
| First Quarter 2016 | 1.15 | 0.43 |
| Second Quarter 2016 | 1.17 | 0.73 |
| Third Quarter 2016 | 1.33 | 0.74 |
| Fourth Quarter 2016 | 1.49 | 1.02 |
| First Quarter 2017 | 1.95 | 1.02 |
| **Monthly Highs and Lows** | | |
| October 2016 | 1.24 | 1.05 |
| November 2016 | 1.35 | 1.02 |
| December 2016 | 1.49 | 1.09 |
| January 2017 | 1.95 | 1.02 |
| February 2017 | 1.53 | 1.31 |
| March 2017 | 1.75 | 1.52 |
| April 2017 (through April 27, 2017) | 1.75 | 1.22 |

(1) Our ADSs began trading on the New York Stock Exchange on May 11, 2011.

### B. Plan of Distribution

Not applicable.

### C. Markets

Please refer to Item 9A "The Offer and Listing—Offer and Listing Details."

### D. Selling Shareholders

Not applicable.

### E. Dilution

Not applicable.

### F. Expenses of the Issue

Not applicable.

## Item 10. Additional Information

### A. Share Capital

Not applicable.

### B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our memorandum and articles of association and other related information contained in the sections captioned "Description of Share Capital," "Description of American Depositary Shares" and "Shares Eligible of Future Sale" in our registration statement on Form F-1 (File No. 333-173587), as amended, initially filed with the SEC on April 19, 2011.

### C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4 "Information on the Company" or elsewhere in this annual report.

### D. Exchange Controls

Please refer to Item 4B "Information on the Company—Business Overview—Regulations—Other Regulations Relevant to Our Operation—Foreign Currency Exchange."

### E. Taxation

*The following is a summary of the material British Virgin Islands, the People's Republic of China and United States federal income tax consequences and considerations relevant to an investment in our ADSs and ordinary shares. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular holder of our ADSs and ordinary shares. The discussion is based on laws and relevant interpretations thereof in effect as of the date hereof, all of which are subject to change or different interpretations, possibly with retroactive effect. The discussion does not address United States state or local tax laws, or tax laws of jurisdictions other than the British Virgin Islands, the People's Republic of China and the United States.*

#### British Virgin Islands Taxation

Under British Virgin Islands law as currently in effect, a holder of ordinary shares who is not a resident of the British Virgin Islands is exempt from British Virgin Islands income tax on dividends paid with respect to the ordinary shares and all holders of ordinary shares are not liable to the British Virgin Islands for income tax on gains realized during that year on sale or disposal of such shares. The British Virgin Islands does not impose a withholding tax on dividends paid by a company incorporated or re-registered under the BVI Act.

There are no capital gains, gift or inheritance taxes levied by the British Virgin Islands on companies incorporated or re-registered under the BVI Act or persons not resident in the British Virgin Islands. In addition, shares of companies incorporated or re-registered under the BVI Act are not subject to transfer taxes, stamp duties or similar charges.

There is no income tax treaty currently in effect between the United States and the British Virgin Islands or between China and the British Virgin Islands.

#### People's Republic of China Taxation

On March 16, 2007, the NPC passed the EIT Law, and on December 6, 2007, the State Council issued the Implementation Regulations of the Enterprise Income Tax Law, both of which became effective on January 1, 2008. The EIT Law and its implementation rules apply a uniform 25.0% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises. There is a transition period for enterprises, whether foreign-invested or domestic, which currently receive preferential tax treatments granted by relevant tax authorities. Enterprises that are subject to an enterprise income tax rate lower than 25.0% may continue to enjoy the lower rate and gradually transfer to the new tax rate within five years after the effective date of the EIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. Preferential tax treatments will continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises classified as "High and New Technology Enterprises" are entitled to a 15.0% enterprise income tax rate.

The EIT Law and its implementation rules provide that enterprises established outside the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises." The "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Currently, there are no detailed rules or precedents governing the procedures and specific criteria for determining "de facto management bodies." The SAT issued Circular 82 setting forth specific standards for determination of the "de facto management bodies" of offshore companies controlled by PRC enterprises. However, it remains unclear as to how the PRC tax authorities will treat an overseas enterprise, with all of its management team members residing in the PRC, invested or controlled by other overseas enterprises as in our case.

Under the EIT Law and its implementation rules, PRC withholding tax at the rate of 10.0% is applicable to interest and dividends payable to investors that are "non-resident enterprises," which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest and dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or ordinary shares by such investors is also subject to 10.0% PRC withholding tax if such gain is regarded as income derived from sources within the PRC. A lower income tax rate of 5.0% is applied if the "non-resident enterprises" are registered in Hong Kong or other jurisdiction that have a tax treaty arrangement with the PRC. Therefore, if we are considered a PRC "resident enterprise," dividends we pay with respect to our ADSs or ordinary shares and the gains realized from the transfer of our ADSs or ordinary shares may be considered as income derived from sources within the PRC and be subject to PRC withholding tax.

Moreover, non-resident individual investors are required to pay PRC individual income tax on interests or dividends payable to the investors or any capital gains realized from the transfer of ADSs or ordinary shares if such gains are deemed income derived from sources within the PRC. Under the PRC Individual Income Tax Law, or IIT Law, non-resident individual refers to an individual who has no domicile in the PRC and does not stay in the territory of the PRC or who has no domicile in the PRC and has stayed in the territory of the PRC for less than one year. Pursuant to the IIT Law and its implementation rules, for purposes of the PRC capital gains tax, the taxable income will be the balance of the total income obtained from the transfer of the ADSs or ordinary shares minus all the costs and expenses that are permitted under PRC tax laws to be deducted from the income. Therefore, if we are considered as a PRC "resident enterprise" and dividends we pay with respect to our ADSs or ordinary shares and the gains realized from the transfer of our ADSs or ordinary shares are considered income derived from sources within the PRC by relevant competent PRC tax authorities, such gains earned by non-resident individuals may also be subject to 20.0% PRC withholding tax.

Please also refer to Item 3D "Key Information—Risk Factors—Risks Relating to Doing Business in the PRC—Dividends we receive from our subsidiaries located in the PRC may be subject to PRC withholding tax," "—We may be treated as a resident enterprise for PRC tax purposes under the EIT Law and we may therefore be subject to PRC income tax on our global income" and "—Dividends payable by us to our foreign investors, and gains on the sales of our ordinary shares or ADSs, may be subject to taxes under PRC tax laws, which may materially reduce the value of your investment."

**Material United States Federal Income Tax Considerations**

The following is a general summary of material U.S. federal income tax considerations relating to the ownership and disposition of the ADSs or ordinary shares by U.S. Investors (as defined below) that hold such ADSs or ordinary shares as capital assets as defined under the Internal Revenue Code of 1986, as amended, or the Code. This summary is based on the Code, the Treasury regulations issued pursuant to the Code, or the Treasury Regulations, and administrative and judicial interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretation. Such change or differing interpretation could materially and adversely affect the tax consequences described below. No assurance can be given that the Internal Revenue Service, or IRS, would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. This summary is for general information only and does not address all of the tax considerations that may be relevant to specific U.S. Investors in light of their particular circumstances or to U.S. Investors subject to special treatment under U.S. federal income tax law (such as banks or other financial institutions, insurance companies, tax-exempt organizations, retirement plans, partnerships, regulated investment companies, dealers in stock, securities or currencies, brokers, real estate investment trusts, certain former citizens or residents of the United States, persons who acquire ADSs or ordinary shares as part of a straddle, hedge, conversion transaction or other integrated investment, persons that have a “functional currency” other than the U.S. dollar, persons that own directly, indirectly or constructively 10% or more of our company’s shares, persons that are resident outside the United States, persons that hold ADSs or ordinary shares in connection with a permanent establishment outside the United States or persons that generally mark their securities to market for U.S. federal income tax purposes). This summary does not address any U.S. state or local or non-U.S. tax considerations or any U.S. federal estate, gift or alternative minimum tax considerations. As used in this summary, the term “U.S. Investor” means a beneficial owner of ADSs or ordinary shares that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof, or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of its source or (iv) a trust, (a) if a court within the United States is able to exercise primary supervision over its administration and one or more “U.S. persons” (within the meaning of the Code) have the authority to control all of its substantial decisions, or (b) if a valid election is in effect for the trust to be treated as a U.S. person.

If an entity treated as a partnership for U.S. federal income tax purposes holds the ADSs or ordinary shares, the tax treatment of such partnership and each partner thereof will generally depend upon the status and activities of the partnership and such partner. A holder that is treated as a partnership for U.S. federal income tax purposes should consult its own tax adviser regarding the U.S. federal income tax considerations applicable to it and its partners of the ownership and disposition of the ADSs or ordinary shares.

**Prospective investors should consult their tax advisers as to the particular tax considerations applicable to them relating to the ownership and disposition of ADSs or ordinary shares, including the applicability of U.S. federal, state and local tax laws and non-U.S. tax laws.**

***Taxation of Dividends***

Subject to the PFIC discussion below, a U.S. Investor will be required to include in gross income the gross amount of any distribution paid on the ADSs or ordinary shares (including any amount of taxes withheld by our company) out of our company’s current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Distributions in excess of our company’s current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Investor’s adjusted tax basis in the ADSs or ordinary shares and thereafter will be treated as a gain from the sale of the ADSs or ordinary shares. However, our company does not currently maintain, and does not intend to maintain, calculations of our earnings and profits in accordance with U.S. federal income tax principles. Consequently, a U.S. Investor should treat the entire amount of any distribution received as a dividend.

In the case of a U.S. Investor that is a corporation, dividends paid on the ADSs or ordinary shares will be subject to regular corporate rates and will not be eligible for the "dividends received" deduction generally allowed to corporate shareholders with respect to dividends received from U.S. corporations.

Certain dividends received by non-corporate U.S. Investors, including individuals, are generally subject to preferential tax rates. A preferential tax rate is applicable to dividends paid by a non-U.S. corporation if such corporation is a "qualified foreign corporation" and only if certain holding period requirements and other conditions are met. A non-U.S. corporation (other than a corporation that is classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) generally will be considered to be a qualified foreign corporation (i) if it is eligible for the benefits of a comprehensive tax treaty with the U.S. which includes an exchange of information program or (ii) with respect to any dividend it pays on stock which is readily tradable on an established securities market in the U.S. If the requirements of this paragraph are not satisfied, a dividend paid by a non-U.S. corporation to a U.S. Investor, including a U.S. Investor that is an individual, estate, or trust, generally will be taxed at ordinary income tax rates (and not at the preferential tax rates).

As described above in the discussion of "—People's Republic of China Taxation," in the event our company is treated as a PRC "resident enterprise" under PRC law, our company may be required to withhold PRC income tax on dividends paid on the ADSs or ordinary shares under the EIT Law. For U.S. federal income tax purposes, U.S. Investors will be treated as having received the amount of PRC taxes withheld by our company, and as then having paid over the withheld taxes to the PRC taxing authorities. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by a U.S. Investor with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the U.S. Investor from our company with respect to the payment.

A U.S. Investor may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on the ADSs or ordinary shares. A U.S. Investor who does not elect to claim a foreign tax credit for foreign income tax withheld, may instead claim a deduction, for U.S. federal income tax purposes, in respect of such withholding, but only for a year in which such investor elects to do so for all creditable foreign income taxes. For purposes of calculating the foreign tax credit limitation, dividends paid by our company will, depending on the circumstances of the U.S. investor, be either general or passive income.

Our company expects to pay dividends, if any, in non-U.S. currency. A dividend paid in non-U.S. currency must be included in a U.S. Investor's income as a U.S. dollar amount based on the exchange rate in effect on the date such dividend is actually or constructively received, regardless of whether the dividend is in fact converted into U.S. dollars. If the dividend is converted to U.S. dollars on the date of receipt, a U.S. Investor generally will not recognize a foreign currency gain or loss. If the non-U.S. currency is converted into U.S. dollars on a later date, however, the U.S. Investor must include in income any gain or loss resulting from any exchange rate fluctuations. Such gain or loss will generally be ordinary income or loss, and will be from sources within the United States for foreign tax credit limitation purposes. U.S. Investors should consult their own tax advisors regarding the tax consequences to them if our company pays dividends in non-U.S. currency.

***Taxation of Sale, Exchange or Other Disposition of ADSs or Ordinary Shares***

Subject to the PFIC discussion below, a U.S. Investor generally will recognize capital gain or loss upon the sale, exchange or other disposition of ADSs or ordinary shares in an amount equal to the difference, if any, between the amount realized on the sale, exchange or other disposition and the U.S. Investor's adjusted tax basis in such ADSs or ordinary shares. This capital gain or loss will be long-term capital gain or loss if the U.S. Investor's holding period in the ADSs or ordinary shares exceeds one year. Long-term capital gain of a non-corporate U.S. investor is generally taxed at preferential rates. The deductibility of capital losses is subject to limitations. The gain or loss will generally be income or loss from sources within the United States for U.S. foreign tax credit purposes. In the event PRC tax were to be imposed on any gain from the disposition of ADSs or ordinary shares as described above in "—People's Republic of China Taxation," such gain may be treated as PRC source gain under the income tax treaty between the United States and the PRC, in which case a U.S. Investor eligible for treaty benefits may be able to claim a foreign tax credit, subject to applicable limitations. U.S. Investors are urged to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on the disposition of ADSs or ordinary shares, including the availability of the foreign tax credit under an investor's own particular circumstances.

A U.S. Investor that receives non-U.S. currency on the disposition of the ADSs or ordinary shares will realize an amount equal to the U.S. dollar value of the foreign currency received on the date of disposition (or in the case of cash basis and electing accrual basis taxpayers, the settlement date) whether or not converted into U.S. dollars at that time. Very generally, the U.S. Investor will recognize currency gain or loss if the U.S. dollar value of the currency received on the settlement date differs from the amount realized with respect to the ADSs or ordinary shares. Any currency gain or loss on the settlement date or on any subsequent disposition of the foreign currency generally will be U.S. source ordinary income or loss.

***Net Investment Income Tax***

A 3.8% tax is imposed on the "net investment income" (as defined in section 1411 of the Code), which includes, among other items, dividends on, and capital gains from the sale or other taxable disposition of, the ADSs or ordinary shares (subject to certain limitations and exceptions), of certain U.S. Investors who are individuals whose income exceeds certain threshold amounts, and who are certain trusts and estates under similar rules.

***Passive Foreign Investment Company***

In general, a foreign corporation will be treated as a PFIC for U.S. federal income tax purposes in any taxable year in which either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its total assets (based on the average of the fair market values of the assets determined at the end of each quarterly period) is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interest, certain royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. In determining whether a foreign corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value) is taken into account. We do not expect to be a PFIC for the current taxable year or any future taxable year. The Company's possible status as a PFIC, however, must be determined for each year and cannot be determined until the end of each taxable year. Also, the PFIC determination depends upon the application of complex U.S. federal income tax rules concerning the classification of our assets and income for this purpose and the application of these rules is uncertain in some respects. Under the income and asset tests, whether our company is a PFIC will be determined annually based upon the composition and nature of our income and the composition, nature and valuation of our assets, all of which are subject to change. For purposes of the asset test, any cash will generally be treated as a passive asset and the amount of cash held by our company in any year will depend, in part, on when our company spends any cash raised or generated in our operations. In addition, the determination of our company's PFIC status will depend upon the nature of the assets acquired by our company. Moreover, the determination of the value of our company's assets may depend on our market capitalization, and that market capitalization may fluctuate. Accordingly, there can be no assurance that we will not be a PFIC in the current or any future taxable year. In addition, there can be no assurance that the IRS will not challenge any determination by our company that we do not constitute a PFIC.

If our company is classified as a PFIC for any taxable year during which a U.S. Investor owns ADSs or ordinary shares, the U.S. Investor, absent certain elections (including a mark-to-market election), will generally be subject to adverse rules (even if the corporation no longer satisfies either the passive income or passive asset tests described above) with respect to (i) any "excess distributions" (generally, any distributions received by the U.S. Investor on the ADSs or ordinary shares in a taxable year that are greater than 125% of the average annual distributions received by the U.S. Investor in the three preceding taxable years or, if shorter, the U.S. Investor's holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition of ADSs or ordinary shares. Under these adverse rules (a) the excess distribution or gain will be allocated ratably over the U.S. Investor's holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which our company is classified as a PFIC will be taxed as ordinary income, and (c) the amount allocated to each of the other taxable years during which our company was classified as a PFIC will be subject to tax at the highest rate of tax in effect for the applicable category of taxpayers for that year and an interest charge will be imposed with respect to the resulting tax attributable to each such taxable year.

As described above, if our company is a PFIC for any taxable year during which a U.S. Investor holds the ADSs or ordinary shares, our company will continue to be treated as a PFIC with respect to that U.S. Investor for all succeeding years during which the U.S. Investor holds the ADSs or ordinary shares. The U.S. Investor may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the special tax rules discussed above) as if the U.S. Investor's ADSs or ordinary shares had been sold on the last day of the last taxable year for which our company was a PFIC.

If our company is treated as a PFIC and our company holds or acquires an interest in an entity which is itself a PFIC, a U.S. Investor may also be subject to the PFIC rules with respect to its indirect ownership of the lower-tier PFIC. U.S. Investors should consult their own tax advisers regarding the consequences to them if our company holds or acquires an interest in an entity which is itself a PFIC.

Although the PFIC rules permit a U.S. holder of stock in a PFIC in certain circumstances to avoid some of the disadvantageous tax treatment described above by making a "qualified electing fund," or QEF, election, a U.S. Investor will not be able to elect to treat our company as a QEF because our company does not intend to prepare the information that the U.S. Investor would need to make a QEF election.

If our company is a PFIC in any year with respect to a U.S. Investor, the disadvantageous tax treatment described above may in part be avoided with respect to our company if a U.S. Investor validly makes a mark-to-market election as of the beginning of such U.S. Investor's holding period. If such election is made, such U.S. Investor generally will be required to take into account the difference, if any, between the fair market value of, and its adjusted tax basis in, the ADSs or ordinary shares at the end of each taxable year as ordinary income or, to the extent of any net mark-to-market gains previously included in income, ordinary loss, and to make corresponding adjustments to the tax basis of such ADSs or ordinary shares. In addition, any gain from a sale, exchange or other disposition of the ADSs or ordinary shares will be treated as ordinary income, and any loss will be treated as ordinary loss (to the extent of any net mark-to-market gains previously included in income). A mark-to-market election is available to a U.S. Investor only if the ADSs or ordinary shares are considered "marketable stock." Generally, shares will be considered marketable stock if the shares are "regularly traded" on a "qualified exchange" within the meaning of applicable Treasury Regulations.

If our company is a PFIC in any year with respect to a U.S. Investor, the U.S. Investor will generally be required to file an annual information return on IRS Form 8621 relating to its ownership of the ADSs or ordinary shares.

U.S. Investors should consult their tax advisors regarding the potential application of the PFIC regime, including eligibility for and the manner and advisability of making a mark-to-market election.

***Certain Reporting Requirements***

Subject to specified exceptions a U.S. Investor (that is, an individual or, to the extent provided in final Treasury Regulations when published, certain domestic entities) is required to report to the IRS such U.S. Investor's interests in stock or securities issued by a non-U.S. person (such as our company), if the aggregate value of these and certain other "specified foreign financial assets" exceeds an applicable reporting threshold. If required, this disclosure is made by filing IRS Form 8938. U.S. Investors should consult their tax advisors regarding the information reporting obligations that may arise from their ownership or disposition of ADSs or ordinary shares.

***Backup Withholding Tax and Information Reporting Requirements***

Under certain circumstances, U.S. backup withholding tax and/or information reporting may apply to U.S. Investors with respect to dividend payments made on or the payment of proceeds from the sale, exchange or other disposition of the ADSs or ordinary shares, unless an applicable exemption is satisfied. U.S. Investors that are corporations generally are excluded from these information reporting and backup withholding tax rules. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding tax rules will be allowed as a credit against a U.S. Investor's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Investor timely furnishes required information to the IRS.

**Enforceability of Civil Liabilities**

Substantially all of our assets are located in the PRC. Most of our directors and officers are nationals or residents of jurisdictions other than the United States, and a substantial portion of their assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon these persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States. We have appointed Law Debenture Corporate Services Inc. as our agent upon whom process may be served in any action brought against us under the securities laws of the United States.

We have been advised by our counsel as to British Virgin Islands law that there is uncertainty as to whether the courts of the British Virgin Islands would entertain original actions brought in the British Virgin Islands against us predicated upon the securities laws of the United States or any state in the United States. Our counsel as to British Virgin Islands law has further advised us that the United States and the British Virgin Islands do not have a treaty providing for reciprocal recognition and enforcement of judgments of courts of the United States in civil and commercial matters and that a final judgment for the payment of money rendered by any general or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not be automatically enforceable in the British Virgin Islands. We have also been advised that a final and conclusive judgment obtained in U.S. federal or state courts under which a sum of money is payable, other than a sum payable in respect of a claim by a revenue authority for taxes or other charges of a similar nature by a governmental authority, or in respect of a fine or penalty or multiple or punitive damages, and which was neither obtained in a waiver nor is of a kind the enforcement of which is contrary to natural justice or the public policy of the British Virgin Islands, may be the subject of an action on a debt in the court of British Virgin Islands under common law.

We have been advised by our counsel as to PRC law that there is uncertainty as to whether the courts of the PRC would entertain original actions brought in the PRC against us predicated upon the securities laws of the United States or any state in the United States. Our counsel as to PRC law has further advised us that the recognition and enforcement of foreign judgments are provided for under PRC Civil Procedures Law. Under the PRC Civil Procedures Law, courts in the PRC may recognize and enforce foreign judgments based either on treaties between China and the country where the judgment is rendered or on reciprocity arrangements for the recognition and enforcement of foreign judgments between jurisdictions. If there are neither treaties nor reciprocity arrangements between China and a foreign jurisdiction where a judgment is rendered, according to the PRC Civil Procedures Law, matters relating to the recognition and enforcement of a foreign judgment in the PRC may be resolved through diplomatic channels. The PRC does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States or the British Virgin Islands. As a result, it is generally difficult to recognize and enforce in the PRC a judgment rendered by a court in either of these two jurisdictions.

## F. Dividends and Paying Agents

Not applicable.

## G. Statement by Experts

Not applicable.

## H. Documents on Display

We have filed with the SEC a registration statement on Form F-1, including relevant exhibits and schedules, under the Securities Act with respect to underlying ordinary shares represented by our ADSs. We have also filed with the SEC a related registration statement on Form F-6 to register the ADSs. You are advised to read the registration statement and its exhibits and schedules for further information with respect to us and our ADSs.

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders, and our executive officers, directors and principal shareholders are not subject to the insider short-swing profit disclosure and recovery provisions of Section 16 of the Exchange Act.

We intend to furnish the depositary with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with IFRS, and all notices of shareholders' meeting and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our written request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

All information filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Additional information may also be obtained over the Internet at the SEC's website at www.sec.gov.

In accordance with Section 203.01 of the NYSE Listed Company Manual, we will post this annual report on our website at www.zenixauto.com. In addition, we will provide hard copies of our annual report free of charge to shareholders and ADS holders upon request.

## I. Subsidiary Information

Not applicable.

# Item 11. Quantitative and Qualitative Disclosures About Market Risk

### Interest Rate Risk

Our interest rate risk arises primarily from bank borrowings and fixed bank deposits at fixed rates and bank balances and pledged bank deposits at prevailing interest rates that expose us to fair value interest rate risk and cash flow interest rate risk, respectively. We currently do not have any interest rate hedging policy and have not historically used any derivative financial instruments to manage our interest risk exposure. Our management monitors our interest rate profile and will consider hedging interest rate should there be a need.

In 2014, it is estimated that a general increase/decrease of 10 basis points in interest rates, with all other variables held constant, would have increased/(decreased) our pre-tax profit for the year by RMB476,00. In 2015 and 2016, it is estimated that a general increase/decrease of 10 basis points in interest rates, with all other variables held constant, would have decreased/(increased) our pre-tax loss for the year by RMB525,000 and RMB569,000 (US$82,000), respectively.

**Credit Risk**

Our credit risk is primarily attributable to trade and other receivables and prepayments, cash at banks and deposits with banks. Our management has a credit policy in place, and our exposure to credit risk is monitored on an ongoing basis. We place deposits with banks which we believe are of a good reputation. We have concentration of credit risk to a certain extent as 20.8%, 20.2% and 18.9% of our trade receivables as of December 31, 2014, 2015 and 2016, respectively, was due from our five largest customers.

**Currency Risk**

A majority of our revenue and most of our expenditure are denominated in Renminbi. However, we are exposed to currency risk primarily through sales which give rise to receivables and cash balances that are denominated in a foreign currency. The currencies giving rise to this risk are primarily U.S. dollars and, to a lesser extent, Euros.

The exchange rate of the Renminbi with U.S. dollars, Euros and other currencies is affected by, among other things, China's political and economic conditions. Please refer to Item 3D "Key Information—Risk Factors—Risks Relating to Doing Business in the PRC—Fluctuation in the value of the Renminbi may have a material and adverse effect on your investment." Any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenue, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. Based on the amount of our cash denominated in U.S. dollars as of December 31, 2014, 2015 and 2016, a 5.0% change in the exchange rates between the Renminbi and the U.S. dollar would result in an increase or decrease of RMB1.8 million, RMB0.8 million and RMB1.5 million (US$0.2 million) in our exchange gain, respectively.

We use Renminbi as the reporting and functional currency of our financial statements. All transactions in currencies other than Renminbi during the year are recorded at the exchange rates prevailing on the respective relevant dates of such transactions. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than Renminbi are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated income statement. Fluctuations in exchange rates may also affect our balance sheet.

We do not believe that we currently have any significant direct foreign currency exchange rate risk and have not hedged exposures denominated in foreign currencies or any other derivative financial instruments.

**Liquidity Risk**

Our policy is to regularly monitor our liquidity requirements to ensure that we maintain sufficient reserve of cash and adequate committed lines of funding from major banks and financial institutions to meet our liquidity requirements in the short and long terms. We also monitor the utilization of bank borrowings. We are exposed to liquidity risk to the extent we have insufficient cash or other source of funding to satisfy liabilities that we may incur from time to time.

**Inflation**

China's consumer price index, the broadest measure of inflation, rose 0.8% in February 2017 from the level in February 2016. Although there can be no assurance as to the impact in future periods, inflation has not had a material impact on our results of operation in recent years.

## Item 12. Description of Securities Other than Equity Securities

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

### D. American Depositary Shares

**Fees and Charges Our ADS Holders May Have to Pay**

The Bank of New York Mellon is our depositary. The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing ordinary shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

| Persons Depositing or Withdrawing Ordinary Shares or ADS Holders Must Pay: | For: |
|---|---|
| US$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) | • Issuance of ADSs, including issuances resulting from a distribution of ordinary shares or rights or other property<br>• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates |
| US$0.05 (or less) per ADS | • Any cash distribution to ADS holders |
| A fee equivalent to the fee that would be payable if securities distributed to you had been ordinary shares and the ordinary shares had been deposited for issuance of ADSs | • Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders |
| US$0.05 (or less) per ADSs per calendar year | • Depositary services |
| Registration or transfer fees | • Transfer and registration of ordinary shares on our ordinary share register to or from the name of the depositary or its agent when you deposit or withdraw ordinary shares |
| Expenses of the depositary | • Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)<br>• Converting foreign currency to U.S. dollars |
| Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or ordinary share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes | • As necessary |
| Any charges incurred by the depositary or its agents for servicing the deposited securities | • As necessary |

**Fees and Other Payments Made by the Depositary to Us**

The depositary has agreed to reimburse us for expenses we incur that are related to establishment and maintenance of the ADS program, including investor relations expenses. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amount of fees the depositary collects from investors. We have receivable reimbursement payments from the depositary totaling approximately US$39,376.21 (net of withholding tax) for the year ended December 31, 2016. In addition, the depositary has agreed to waive certain fees for standard costs associated with the administration of the ADS program. The depositary waived such costs in an aggregate amount of approximately US$45,000 for the year ended December 31, 2016.

# PART II

## Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

## Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Please refer to Item 10B "Additional Information—Memorandum and Articles of Association" for a description of the rights of security holders, which remain unchanged.

The following "Use of Proceeds" information relates to our registration statement on Form F-1 (File No. 333-173587) for our initial public offering, including an offering of 11,610,000 ADSs, representing 46,440,000 ordinary shares, by us for an aggregate offering price of US$69,660,000 and an offering of 1,290,000 ADSs, representing 5,160,000 ordinary shares, by our selling shareholder for an aggregate offering price of US$7,740,000. The registration statement was declared effective by the SEC on May 11, 2011. We completed our initial public offering on May 17, 2011. The offering terminated after all of the registered securities were sold.

Morgan Stanley & Co. International plc, William Blair & Company, L.L.C., and Oppenheimer & Co. Inc. were the underwriters for our initial public offering.

We received net proceeds of approximately US$59.5 million from our initial public offering, after deducting approximately US$4.9 million for underwriting discounts and commissions, and approximately US$5.3 million for other expenses.

As of December 31, 2013, we have used all the net proceeds from our initial public offering as follows:

- approximately US$42.6 million for manufacturing facility expansion and construction of our aluminum wheel manufacturing facility;
- approximately US$2.7 million for the expansion and enhancement of our research and development activities;
- approximately US$1.8 million for the expansion and strengthening of our PRC aftermarket distribution network and increasing the size of our sales and marketing team and the level of our promotional activities in the PRC; and
- approximately US$2.2 million for the expansion of our international sales in India, select countries in Asia and the Middle East, North America and Europe.

## Item 15. Controls and Procedures

### Disclosure Controls and Procedures

As of December 31, 2016, our management performed, under the supervision and with the participation of our chief executive officer and chief financial officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined and required under Rules 13a-15 and 15d-15 of the Exchange Act. Based upon that evaluation, they have concluded that our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and regulations, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our chief executive officer and chief financial officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016, using criteria established in the updated framework in the Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992 and updated in May 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2016.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15 or 15d-15 of the Exchange Act that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. William John Sharp, chairman of our audit committee, meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC and is an "independent director" within the meaning of Section 303A of the NYSE Listed Company Manual and meets the criteria for independence set forth in Section 10A(m)(3) of the Exchange Act.

## Item 16B. Code of Ethics

Our board of directors has adopted a code of business conduct and ethics, which is applicable to our senior executive and financial officers. Our code of business conduct and ethics has been filed as an exhibit to our registration statement on Form F-1 (File No. 333-173587), as amended, initially filed with the SEC on April 19, 2011.

## Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by our principal external auditors.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB | RMB | US$ |
| | | (in thousands) | |
| Audit fees (1) | 1,480 | 1,421 | 205 |
| Audit-related fees (2) | — | — | — |
| Total | 1,480 | 1,421 | 205 |

(1) "Audit fees" means the aggregate fees billed in each of the fiscal years for professional services rendered by our principal external auditors for the audit of our annual financial statements and our internal control over financial reporting.

(2) "Audit-related fees" means the aggregate fees billed in each of the fiscal years for assurance and related services rendered by our principal external auditors that are reasonably related to the performance of the audit of our annual financial statements and are not reported under "Audit fees."

The policy of our audit committee is to pre-approve all auditing and non-auditing services permitted to be performed by our independent external auditors.

### Item 16D. Exemptions from the Listing Standards for Audit Committees

None.

### Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

### Item 16F. Change in Registrant's Certifying Accountants

On September 29, 2016, we engaged Centurion ZD CPA Limited (formerly known as DCAW (CPA) Limited) ("Centurion") as our new independent auditing firm effective September 29, 2016. This action was taken as the Company's current audit firm, Crowe Horwath (HK) CPA Limited ("CHHK"), will no longer provide audit and assurance services to public companies which are subject to the statutes and regulations of the United States effective as of October 1, 2016.

CHHK's reports on the financial statements of the Company for the fiscal years ended December 31, 2014 and 2015 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During the Company's fiscal years ended December 31, 2014 and 2015 and through September 29, 2016, there were no disagreements with CHHK on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which disagreements, if not resolved to CHHK's satisfaction, would have caused them to make reference to the subject matter of the disagreements in connection with their reports on the Company's consolidated financial statements for such periods. Furthermore, no reportable events as that term is defined in Item 16F(a)(1)(v) of Form 20-F, occurred within the periods covered by CHHK's reports on the Company's consolidated financial statements, or subsequently up to the date of CHHK's dismissal.

The Company has provided CHHK with a copy of the foregoing disclosures and has requested that CHHK review such disclosures and provide a letter addressed to the SEC as specified by Item 16F(a)(3) of Form 20-F.

In connection with the audit of our financial statements for the two most recent fiscal years ended December 31, 2014 and 2015 and through September 29, 2016, neither the Company nor anyone on its behalf consulted Centurion regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or on the type of audit opinion that might be rendered on the consolidated financial statements of the Company, and neither a written report nor oral advice was provided to the Company that Centurion concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement or a reportable event as described above.

The Company has provided CHHK with a copy of these disclosures prior to the filing hereof and has requested that CHHK furnish to the Company a letter addressed to the SEC stating whether CHHK agrees with the statements made by the Company in this item. CHHK has furnished such letter, which letter is filed as Exhibit 16.1 hereto as required by Item 16F(a)(3) of Form 20-F.

### Item 16G. Corporate Governance

As a foreign private issuer, we are permitted to follow home country practices in lieu of some of the corporate governance practices required to be followed by U.S. companies listed on the New York Stock Exchange. As a result, our corporate governance practices differ in some respects from those required to be followed by U.S. companies listed on the New York Stock Exchange.

The significant differences between our corporate governance practices and those required to be followed by U.S. companies under the New York Stock Exchange's corporate governance rules include:

- Section 303A.03 of the NYSE Listed Company Manual provides that listed companies must schedule regular executive sessions in which non-management directors meet without management participation. We are not required under the laws of the British Virgin Islands to, and currently do not, hold such executive sessions.
- Section 303A.04 and 303A.05 of the NYSE Listed Company Manual provide that the nominating/corporate governance committee and the compensation committee must be composed entirely of independent directors. There are no specific requirements under the laws of the British Virgin Islands on the composition of the nominating/corporate governance committee and the compensation committee. Our nominating and corporate governance committee consists of Messrs. Jianhui Lai, Junqiu Gao and William John Sharp, and is chaired by Mr. Lai. Our compensation committee consists of Messrs. Yichun Zhang, Jianhui Lai and William John Sharp, and is chaired by Mr. Zhang. Our board of directors has determined that each of Messrs. Zhang and Sharp is an "independent director" within the meaning of Section 303A of the NYSE Listed Company Manual.

- Section 303A.09 of the NYSE Listed Company Manual provides that listed companies must adopt and disclose corporate governance guidelines addressing certain specified subjects. We are not required under the laws of the British Virgin Islands to adopt or disclose corporate governance guidelines. We adopted our corporate governance guidelines but do not disclose such guidelines.
- Section 303A.12(a) of the NYSE Listed Company Manual provides that each listed company's chief executive officer must certify to the New York Stock Exchange each year that he or she is not aware of any violation by the company of New York Stock Exchange corporate governance listing standards. Our chief executive officer is not required under the laws of the British Virgin Islands to, and currently does not, make similar certifications.

### Item 16H. Mine Safety Disclosure

Not applicable.

## PART III

### Item 17. Financial Statements

We have elected to provide financial statements pursuant to Item 18.

### Item 18. Financial Statements

Our consolidated financial statements are included at the end of this annual report.

**Item 19. Exhibits**

| Exhibit Number | Document |
|---|---|
| 1.1 | Amended and Restated Memorandum and Articles of Association of China Zenix (incorporated by reference to Exhibit 3.3 to our Registration Statement on Form F-1 (File No. 333-173587) filed with the SEC on April 19, 2011) |
| 2.1 | China Zenix's Specimen American Depositary Receipt (included in Exhibit 2.3) |
| 2.2 | China Zenix's Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form F-1 (File No. 333-173587) filed with the SEC on April 19, 2011) |
| 2.3 | Form of Deposit Agreement, among China Zenix, the Depositary and Owners and Holders of American Depositary Shares (incorporated by reference to Exhibit 1 to Amendment No. 1 to Form F-6 (File No. 333-173588) filed with the SEC on April 27, 2011) |
| 4.1 | 2011 Share Incentive Plan (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 (File No. 333-173587) filed with the SEC on April 19, 2011) |
| 4.2 | Form of Indemnification Agreement between China Zenix and its directors and executive officers (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 (File No. 333-173587) filed with the SEC on April 19, 2011) |
| 4.3 | Form of Employment Agreement between China Zenix and its executive officers (incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 (File No. 333-173587) filed with the SEC on April 19, 2011) |
| 4.4 | Notice of Exercise by and between Mr. Jianhui Lai and Ms. Laifan Chu, dated December 19, 2012 (incorporated by reference to Exhibit 99.4 to the Schedule 13D filed by Mr. Jianhui Lai with the SEC on December 20, 2012) |
| 4.5 | Form of Strategic Cooperation Agreement between Zhengxing Wheel and international distributors (incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 (File No. 333-173587) filed with the SEC on April 19, 2011) |
| 4.6 | Form of Strategic Cooperation Agreement between Zhengxing Wheel and international OEM customers (incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 (File No. 333-173587) filed with the SEC on April 19, 2011) |
| 8.1 | Subsidiaries of China Zenix |
| 11.1 | Code of Business Conduct and Ethics of China Zenix (incorporated by reference to Exhibit 99.1 to our Registration Statement on Form F-1 (File No. 333-173587) filed with the SEC on April 19, 2011) |
| 12.1 | Certification of Chief Executive Officer Required by Rule 13a-14(a) |
| 12.2 | Certification of Chief Financial Officer Required by Rule 13a-14(a) |
| 13.1 | Certification of Chief Executive Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code |
| 13.2 | Certification of Chief Financial Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code |
| 15.1 | Consent of Centurion ZD CPA Limited, an independent registered public accounting firm |

## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**CHINA ZENIX AUTO INTERNATIONAL LIMITED**

By: /s/ Martin Cheung
Martin Cheung
Chief Financial Officer

Date: April 28, 2017

CHINA ZENIX AUTO INTERNATIONAL LIMITED
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of China Zenix Auto International Limited

We have audited the accompanying consolidated statements of financial position of China Zenix Auto International Limited (the "Company") and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2016. Our audits also included the financial statement schedule included in Schedule 1 as of December 31, 2016 and 2015 and for each of the years in the three-year period ended December 31, 2016. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of China Zenix Auto International Limited and subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also, in our opinion, such related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as whole, presents fairly in all material respects the information set forth therein.

Our audits also comprehended the translation of Renminbi amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such United States dollar amounts are presented solely for the convenience of readers in the United States of America.

/s/ Centurion ZD CPA Limited

**Centurion ZD CPA Limited**
Hong Kong, China
April 28, 2017

CHINA ZENIX AUTO INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the years ended December 31, 2014, 2015 and 2016

| | NOTE | 2014 RMB'000 | | 2015 RMB'000 | | 2016 RMB'000 | | 2016 US$'000 | |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **5** | | **3,334,355** | | **2,445,756** | | **2,249,533** | | **324,000** |
| Cost of sales | | | (2,744,896) | | (2,081,976) | | (1,862,017) | | (268,186) |
| Gross profit | | | 589,459 | | 363,780 | | 387,516 | | 55,814 |
| Other income, gain and loss | 6 | | 25,781 | | 16,410 | | 11,680 | | 1,682 |
| Net exchange gain | | | 1,664 | | 5,793 | | 2,546 | | 367 |
| Selling and distribution costs | | | (253,846) | | (212,273) | | (181,911) | | (26,201) |
| Research and development expenses | | | (98,040) | | (51,253) | | (84,639) | | (12,191) |
| Administrative expenses | | | (149,481) | | (136,681) | | (139,377) | | (20,074) |
| Finance costs | 7 | | (17,606) | | (15,913) | | (21,387) | | (3,080) |
| Profit (loss) before taxation | | | 97,931 | | (30,137) | | (25,572) | | (3,683) |
| Income tax (expense) credit | 8 | | (18,704) | | 1,570 | | (352) | | (51) |
| **Profit (loss) and total comprehensive income (loss) for the year** | 9 | | 79,227 | | (28,567) | | (25,924) | | (3,734) |
| **Profit (loss) and total comprehensive income (loss) attributable to:** | | | | | | | | | |
| Owners of the Company | | | 79,227 | | (28,567) | | (25,924) | | (3,734) |
| Earnings (loss) per share | 10 | | | | | | | | |
| Basic | | RMB | 0.38 | RMB | (0.14) | RMB | (0.13) | USD | (0.02) |
| Diluted | | RMB | 0.38 | RMB | (0.14) | RMB | (0.13) | USD | (0.02) |

See accompanying notes to the consolidated financial statements.

CHINA ZENIX AUTO INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | NOTE | As of December 31, 2015 RMB'000 | 2016 RMB'000 | 2016 US$'000 |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets | | | | |
| Inventories | 12 | 181,905 | 138,740 | 19,983 |
| Trade and other receivables and prepayments | 13 | 613,418 | 695,856 | 100,224 |
| Prepaid lease payments | 14 | 9,425 | 9,425 | 1,357 |
| Pledged bank deposits | 15 | 28,200 | 32,100 | 4,623 |
| Fixed bank deposits with maturity periods over three months | 15 | 260,000 | 290,000 | 41,769 |
| Bank balances and cash | 15 | 817,247 | 896,799 | 129,166 |
| Total current assets | | 1,910,195 | 2,062,920 | 297,122 |
| Non-current assets | | | | |
| Property, plant and equipment | 16 | 1,506,318 | 1,379,287 | 198,659 |
| Prepaid lease payments | 14 | 385,874 | 376,449 | 54,220 |
| Deferred tax assets | 17 | 15,958 | 23,836 | 3,433 |
| Intangible assets | 18 | 17,000 | 17,000 | 2,449 |
| Total non-current assets | | 1,925,150 | 1,796,572 | 258,761 |
| Total assets | | 3,835,345 | 3,859,492 | 555,883 |
| EQUITY AND LIABILITIES | | | | |
| Current liabilities | | | | |
| Trade and other payables and accruals | 19 | 606,922 | 668,633 | 96,302 |
| Amount due to a shareholder | 20 | 11,679 | 1,398 | 201 |
| Taxation payable | | 674 | 109 | 16 |
| Short-term bank borrowings | 21 | 558,000 | 558,000 | 80,369 |
| Total current liabilities | | 1,177,275 | 1,228,140 | 176,888 |
| Non-current liabilities | | | | |
| Deferred income | 22 | 9,292 | 8,496 | 1,224 |
| Deferred tax liabilities | 17 | 85,284 | 85,286 | 12,284 |
| Total non-current liabilities | | 94,576 | 93,782 | 13,508 |
| Total liabilities | | 1,271,851 | 1,321,922 | 190,396 |
| EQUITY | | | | |
| Share capital (US$0.0001 par value, 500,000,000 shares authorized, 206,500,000 shares issued and outstanding as of December 31, 2015 and 2016) | 23 | 136 | 136 | 20 |
| Additional paid in capital | | 392,076 | 392,076 | 56,471 |
| Reserves | | 2,171,282 | 2,145,358 | 308,996 |
| Total equity attributable to owners of the Company | | 2,563,494 | 2,537,570 | 365,487 |
| Total equity and liabilities | | 3,835,345 | 3,859,492 | 555,883 |

See accompanying notes to the consolidated financial statements.

CHINA ZENIX AUTO INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2014, 2015 and 2016

| | Share capital | Additional paid in capital | Capital reserve | PRC statutory reserve | Share incentive plan reserve | Retained profits | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 (note i) | RMB'000 (note ii) | RMB'000 | RMB'000 | RMB'000 |
| As of January 1, 2014 | 136 | 392,076 | 560,892 | 123,247 | 3,110 | 1,433,373 | 2,512,834 |
| Profit and total comprehensive income for the year | — | — | — | — | — | 79,227 | 79,227 |
| Transfer | — | — | — | 983 | — | (983) | — |
| As of December 31, 2014 | 136 | 392,076 | 560,892 | 124,230 | 3,110 | 1,511,617 | 2,592,061 |
| Loss and total comprehensive loss for the year | — | — | — | — | — | (28,567) | (28,567) |
| As of December 31, 2015 | 136 | 392,076 | 560,892 | 124,230 | 3,110 | 1,483,050 | 2,563,494 |
| Loss and total comprehensive loss for the year | — | — | — | — | — | (25,924) | (25,924) |
| As of December 31, 2016 | 136 | 392,076 | 560,892 | 124,230 | 3,110 | 1,457,126 | 2,537,570 |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| As of December 31, 2016 | 20 | 56,471 | 80,785 | 17,893 | 448 | 209,870 | 365,487 |

See accompanying notes to the consolidated financial statements.

Notes:

i. Capital reserve include (a) additional capital contributions, comprising a cash injection of RMB159.8 million and an option of RMB386.3 million, being the fair value at grant date, by equity owners to acquire Zhengxing Wheel Group Co., Limited (b) capital contribution of RMB10.9 million in the year ended December 31, 2011 by equity owners pursuant to a shareholder agreement and (c) the recognition of share-based payment expenses of RMB3,829,000 as of January 1, 2014, December 31, 2014, 2015 and 2016, in relation to restricted shares awarded to a management executive by an equity participant (see Note 25(i)).

ii. As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), companies established in the PRC (the "PRC subsidiaries") are required to maintain a statutory reserve made out of profit for the year based on the PRC subsidiaries' statutory financial statements which are prepared in accordance with the accounting principles generally accepted in the PRC. The amount and allocation basis are decided by the board of directors of the relevant PRC subsidiaries annually and is not to be less than 10% of the profit for the year of the relevant PRC subsidiaries. The aggregate amount allocated to the reserves will be limited to 50% of registered capital for certain subsidiaries. Statutory reserve can be used for expanding the capital base of the PRC subsidiaries by means of capitalization issue.

The PRC laws and regulations restrict the distribution of registered capital of companies established in the PRC. Accordingly, the registered capital of PRC entities in the Group of RMB773,065,000 as of December 31, 2015 and 2016 are considered restricted for distribution.

In addition, as a result of the relevant PRC laws and regulations which impose restriction on distribution or transfer of assets out of the PRC statutory reserve, RMB146,424,000 representing the PRC statutory reserve of the subsidiaries as of December 31, 2015 and 2016, are also considered under restriction for distribution.

CHINA ZENIX AUTO INTERNATIONAL LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2014, 2015 and 2016

| | 2014 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2016 US$'000 |
|---|---|---|---|---|
| OPERATING ACTIVITIES | | | | |
| Profit (loss) before taxation | 97,931 | (30,137) | (25,572) | (3,683) |
| Amortization of prepaid lease payments | 9,425 | 9,425 | 9,425 | 1,357 |
| Depreciation of property, plant and equipment | 128,816 | 131,277 | 154,783 | 22,293 |
| Release of deferred income | (797) | (796) | (796) | (115) |
| Finance costs | 17,606 | 15,913 | 21,387 | 3,080 |
| Interest income | (17,990) | (14,464) | (11,126) | (1,602) |
| Loss on disposal of property, plant and equipment | 22 | 13 | 105 | 15 |
| Operating cash flows before movements in working capital | 235,013 | 111,231 | 148,206 | 21,345 |
| Decrease in inventories | 12,691 | 200,162 | 43,165 | 6,217 |
| Decrease (increase) in trade and other receivables and prepayments | 56,494 | 305,960 | (82,407) | (11,870) |
| (Decrease) increase in trade and other payables and accruals | (184,893) | (335,696) | 67,363 | 9,702 |
| Cash generated from operations | 119,305 | 281,657 | 176,327 | 25,394 |
| Interest received | 17,327 | 15,364 | 11,123 | 1,602 |
| PRC income tax refunded | — | — | 510 | 73 |
| PRC income tax paid | (35,053) | (3,214) | (8,793) | (1,266) |
| NET CASH FROM OPERATING ACTIVITIES | 101,579 | 293,807 | 179,167 | 25,803 |
| INVESTING ACTIVITIES | | | | |
| Purchase of property, plant and equipment | (47,940) | (20,512) | (15,082) | (2,172) |
| Deposits paid for acquisition of property, plant and equipment | (85,584) | (70,065) | (14,464) | (2,083) |
| Proceeds on disposal of property, plant and equipment | 178 | 50 | — | — |
| Placement of pledged bank deposits | (9,500) | (2,900) | (20,290) | (2,922) |
| Withdrawal of pledged bank deposits | 27,000 | 33,800 | 16,390 | 2,361 |
| Placement of fixed bank deposits with maturity periods over three months | (420,000) | (520,000) | (720,000) | (103,702) |
| Withdrawal of fixed bank deposits with maturity periods over three months | 320,000 | 520,000 | 690,000 | 99,381 |
| NET CASH USED IN INVESTING ACTIVITIES | (215,846) | (59,627) | (63,446) | (9,137) |
| FINANCING ACTIVITIES | | | | |
| New bank borrowings raised | 508,000 | 558,000 | 558,000 | 80,369 |
| Repayment of bank borrowings | (558,000) | (508,000) | (558,000) | (80,369) |
| Advance from a shareholder | 5,507 | 6,172 | 4,455 | 642 |
| Repayment to a shareholder | — | — | (14,736) | (2,123) |
| Interest paid | (32,895) | (31,470) | (25,350) | (3,651) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | (77,388) | 24,702 | (35,631) | (5,132) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (191,655) | 258,882 | 80,090 | 11,534 |
| Effect of foreign exchange rate | (99 | 1,375 | (538) | (76) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 748,744 | 556,990 | 817,247 | 117,708 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | 556,990 | 817,247 | 896,799 | 129,166 |

See accompanying notes to the consolidated financial statements.

CHINA ZENIX AUTO INTERNATIONAL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014, 2015 and 2016

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

China Zenix Auto International Limited (the "Company") is a company incorporated under the laws of the British Virgin Islands on July 11, 2008. It is an investment holding company and its ultimate parent company is Newrace Limited ("Newrace"), which is also a company incorporated under the laws of the British Virgin Islands. Its ultimate controlling party is Mr. Jianhui Lai, who is the chairman and chief executive officer of the Company. The address of the registered and principal place of the Company's business are 171 Main Street, P.O. Box 4041, Road Town, Tortola, VG1110, British Virgin Islands and No. 1608, North Circle Road State Highway, Zhangzhou, Fujian Province 363000, the People's Republic of China (the "PRC"), respectively.

The Company owns 100% equity interest in China Wheel Limited ("China Wheel"), a company incorporated under the laws of Special Administrative Region of Hong Kong. China Wheel owns 100% equity interest in Zhengxing Wheel Group Co., Limited ("Zhengxing Wheel").

Zhengxing Wheel was established as a limited liability company in the PRC on June 23, 2003. Details of Zhengxing Wheel's subsidiaries as of December 31, 2014 and 2015 are as follows:

| Name of company | Place and date of establishment and operation | Attributable equity interests directly held by Zhengxing Wheel at December 31, 2015 | 2016 |
|---|---|---|---|
| Zhengxing Group Chengdu Wheel Co., Ltd. ("Zhengxing Chengdu") | The PRC July 30, 2004 | 100% | 100% |
| Zhengxing Group Langfang Wheel Co., Ltd. ("ZhengxingLangfang") | The PRC January 21, 2005 | 100% | 100% |
| Zhengxing Group Hefei Wheel Co., Ltd. ("Zhengxing Hefei") | The PRC June 9, 2005 | 100% | 100% |
| Hua'an Zhengxing Wheel Co., Ltd. | The PRC November 19, 2010 | 100% | 100% |

Zhengxing Wheel and each of its subsidiaries were engaged in research, development, production and sale of commercial vehicle wheels.

The Company and its subsidiaries are referred to as the "Group".

The consolidated financial statements of the Group are presented in Renminbi ("RMB"). Other than those subsidiaries established in the PRC whose functional currency is RMB, the functional currency of the Company and its subsidiaries is United States dollar ("US$").

CHINA ZENIX AUTO INTERNATIONAL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014, 2015 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and related nterpretations issued by the IASB.

The significant accounting policies that have been used in the preparation of these consolidated financial statements are disclosed below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended IFRSs and the impacts on the Company's financial statements, if any, are disclosed in Note 3.

Basis of preparation

The Group's consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 4.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

CHINA ZENIX AUTO INTERNATIONAL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014, 2015 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income and expenses and cash flow relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue excludes value added tax or other sales taxes and is after deduction of estimated customer returns, rebates and other similar allowances. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue for the sale of goods is recognized when the goods are delivered and titles have passed, at which time when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods and retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the good sold.

The Group's revenues are principally from sales of commercial vehicle wheels to customers in the PRC and international markets. Revenue arising from sales made to PRC customers consists of sales to original equipment manufacturers ("OEMs") and tier-one distributors who then resell the Group's products to retail end-users in the aftermarket through tier-two distributors. The Group sells only to tier-one distributors and it does not sell directly to the tier-two distributors or end-users in the aftermarket. The Group offers discounts or rebates based on the contractual percentages of sales to OEMs in settlement of warranty obligations and the OEMs have no other right of return.

The Group's sales to tier-one distributors and international sales to international distributors and vehicle manufacturers have rights of returns or warranty obligations.

(ii) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Cost of sales

Cost of sales primarily consists of cost of raw materials, direct labor, and manufacturing overhead which includes depreciation expenses of plant and machinery.

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For the years ended December 31, 2014, 2015 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress as described below are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized 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 derecognized. All other repairs and maintenance are recognized in profit or loss during the financial period in which they are incurred.

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.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net proceeds on disposal and the carrying amount of the asset and is recognized in profit or loss.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

Leasehold land for own use

Up-front payments to acquire leasehold land that is accounted for as an operating lease are presented as "prepaid lease payments" in the consolidated statements of financial position and is amortized over the lease term on a straight-line basis.

CHINA ZENIX AUTO INTERNATIONAL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014, 2015 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the date of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are included in non-current liabilities as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. 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 recognized in profit or loss in the period in which they become receivable.

Employee benefits

*Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Payments to defined contribution scheme are recognized as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution scheme where the Group’s obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

*Termination benefits*

Termination benefits are recognized at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognizes restructuring costs involving the payment of termination benefits.

*Share-based payment transactions*

**Equity-settled share-based payment transactions**

*Share options/awarded shares granted to employees*

The fair value of services received determined by reference to the fair value of the share options and awarded shares granted at the date of grant is expensed as staff costs on a straight-line basis over the vesting period, with a corresponding increase in share incentive plan reserve (see Note 25(ii)).

The fair value of services received determined by reference to the fair value of the awarded shares granted by Newrace at the date of grant is expensed as staff costs on a straight-line basis over the vesting period, with a corresponding increase in capital reserve (see Note 25(i)).

CHINA ZENIX AUTO INTERNATIONAL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014, 2015 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Employee benefits - continued

At the end of the reporting period, the Group revises its estimates of the number of share options and awarded shares that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognized in profit or loss for the year such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share incentive plan reserve or capital reserve where appropriate. On the vesting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to share incentive plan reserve or capital reserve where appropriate) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares.

When share options are exercised/restricted shares are issued, the amount previously recognized in share incentive plan reserve will be transferred to additional paid in capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share incentive plan reserve will be transferred to retained profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax loses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

CHINA ZENIX AUTO INTERNATIONAL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014, 2015 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to beutilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

Intangible assets

**Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

The Group has not capitalized any development cost during the years presented.

Inventories

Inventories are stated at the lower of cost and net realizable value.

Costs of inventories are determined on a weighted average method and comprise all costs of purchase, costs of conversion and other costs incurred in bring the inventories to their present location and condition.

Net realizable value represents the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets**

The Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at fair value. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, fixed bank deposits with maturity periods over three months and bank balances) are measured at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been adversely affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss on trade receivables and other current receivables and other financial assets carried at amortized cost is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade receivables included within trade and other receivables and prepayments, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014, 2015 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial liabilities and equity instruments**

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

*Financial liabilities*

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. They are subsequently stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Trade and other payables are initially recognized at fair value. Theys are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

*Derecognition*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes a financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment
- prepaid lease payments; and
- intangible assets.

If any such indication exists, the recoverable amount of the asset is estimated. In addition, for intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

CHINA ZENIX AUTO INTERNATIONAL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014, 2015 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of non-financial assets - continued

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognized in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Provisions and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Earnings per share

Basic earnings per share are calculated by dividing profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the years.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Anti-dilutive potential ordinary shares are not considered in the calculation of the diluted earnings per share. Potential ordinary shares are anti-dilutive when the conversion of ordinary shares increases the earnings per share or decreases the net losses per share.

CHINA ZENIX AUTO INTERNATIONAL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014, 2015 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Translation into United States dollar

The consolidated financial statements of the Group are stated in RMB. The translation of RMB amounts as of and for the year ended December 31, 2016 into US$ is included solely for the convenience of readers and was made at the rate of RMB6.943 to US$1.00, which was based on the noon buying rate on December 31, 2016 in The City of New York cable transfers of RMB as certified for customers purposes by the Federal Reserve Bank of New York. Such translations should not be construed as representation that RMB amounts could be converted, realized or settled into US$ at the rate stated above or at any other rate.

Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments are relevant to the Group's results and financial position.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments | January 1, 2018 |
| IFRS 9 | Financial Instruments | January 1, 2018 |
| IFRS 16 | Leases | January 1, 2019 |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealized Losses | January 1, 2017 |

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results and financial position.

CHINA ZENIX AUTO INTERNATIONAL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014, 2015 and 2016

4. ACCOUNTING JUDGMENTS AND ESTIATMES

In the application of the Group's accounting policies, which are described in Note 2, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Following are the key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated useful lives and impairment assessment of property, plant and equipment

Buildings and plant and machinery included in property, plant and equipment are depreciated over their estimated useful lives. The assessment of estimated useful lives is a matter of judgment based on the experience of the Group, taking into account factors such as conditions of the buildings and plant and machinery and changes in market demand. Useful lives are periodically reviewed for their appropriateness.

Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statements of profit or loss and other comprehensive income.

As of December 31, 2016 and 2015, the carrying amounts of property, plant and equipment were RMB1,379,287,000 (US$198,659,000) and RMB1,506,318,000, respectively (net of accumulated impairment losses of RMB10,259,000 as of December 31, 2016 and 2015). No impairment loss was recognized for the years presented.

Estimated impairment of prepaid lease payments

Determining whether prepaid lease payments are impaired requires an estimation of the recoverable amount of the prepaid lease payments. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

As of December 31, 2016 and 2015, the carrying amounts of prepaid lease payments were RMB385,874,000 (US$55,577,000) and RMB395,299,000, respectively. No impairment loss was recognized for the years presented.

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use to which intangible assets has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the Group and a suitable discount rate in order to calculate the present value. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision.

4. ACCOUNTING JUDGMENTS AND ESTIATMES - continued

Estimated impairment of intangible assets - continued

As of December 31, 2016 and 2015, the carrying amount of intangible assets was RMB17,000,000 (US$2,449,000) and RMB17,000,000, respectively. No impairment loss was recognized for the years presented.

Estimated impairment of trade receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual impairment losses would be higher than estimated.

As of December 31, 2016 and 2015, the carrying amounts of trade receivables were RMB438,751,000 (US$63,193,000) and RMB416,232,000, respectively. No impairment loss of trade receivables was recognized for the years presented.

Allowance for inventories

Management reviews the aging of the inventories at the end of the reporting periods, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or saleable in the market. Management estimates the net realizable value for such items based primarily on the latest invoice prices and current market conditions.

As of December 31, 2016 and 2015, the carrying amounts of inventories were RMB138,740,000 (US$19,983,000) and RMB181,905,000, respectively. No impairment loss of inventories was recognized for the years presented.

5. REVENUE AND SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has identified operating segments based on similar economic characteristics, products and services and delivery methods. The Group determines its operating segments based on the report reviewed by the directors of the Company, who are also the chief operating decision makers, to make strategic decisions.

Information reported to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment focuses specifically on the sales channels through which the Group's steel wheels are sold. Accordingly, the Group categorizes its business into three operating segments, namely (i) PRC OEM sales; (ii) PRC aftermarket sales; and (iii) International sales.

- PRC OEM sales - production and sales of steel and aluminum wheels to vehicle manufacturers in the PRC.
- PRC aftermarket sales - production and sales of steel and aluminum wheels to distributors in the PRC.
- International sales - production and sales of steel wheels to distributors and vehicle manufacturers outside the PRC.

The Group's chief operating decision makers make decisions according to the operating results of each segment. Information of segment assets and liabilities is not regularly provided to nor part of the regular reports reviewed by the Group's chief operating decision makers for the purpose of resources allocation and performance assessment. Accordingly, only segment results are presented.

5. REVENUE AND SEGMENT INFORMATION - continued

Segment result represents the profit earned by each segment without adjustments of sales gross up from netting off selling expense, provision of sales rebates and discount, fair value adjustments arising from acquisition of subsidiaries and amortization of capitalized general borrowing costs of qualifying assets, unrealized profit, and without allocation of other income, gain and loss, net exchange gain (loss), selling and distribution costs, research and development expenses, administrative expenses, finance costs, income tax expenses. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

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5. REVENUE AND SEGMENT INFORMATION - continued

An analysis of the Group's revenue and segment results by operating and reportable segments for the years are as follows:

| | PRC OEM sales | | | PRC aftermarket sales | | | International sales | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | US$'000 |
| Revenue from external customers | 1,153,623 | 814,621 | 856,727 | 1,676,079 | 1,203,753 | 1,028,018 | 508,546 | 431,361 | 365,916 | 3,338,248 | 2,449,735 | 2,250,661 | 324,163 |
| Reconciliation adjustments | | | | | | | | | | | | | |
| Gross up adjustment to reverse net off of selling expense | — | — | — | — | — | — | 7,018 | 5,569 | 5,621 | 7,018 | 5,569 | 5,621 | 809 |
| Provision of sales rebates and discount | — | — | — | (10,911) | (9,548) | (6,749) | — | — | — | (10,911) | (9,548) | (6,749) | (972) |
| Total consolidated net revenue, as reported | 1,153,623 | 814,621 | 856,727 | 1,665,168 | 1,194,205 | 1,021,269 | 515,564 | 436,930 | 371,537 | 3,334,355 | 2,445,756 | 2,249,533 | 324,000 |
| Segment result (gross profit before reconciliation) | 196,167 | 101,014 | 133,315 | 336,550 | 199,929 | 210,240 | 65,185 | 64,709 | 51,607 | 597,902 | 365,652 | 395,162 | 56,915 |
| Reconciliation adjustments | | | | | | | | | | | | | |
| Gross up adjustment to reverse net off of selling expense | — | — | — | — | — | — | 7,018 | 5,569 | 5,621 | 7,018 | 5,569 | 5,621 | 810 |
| Provision of sales rebates and discount | — | — | — | (10,911) | (9,548) | (6,749) | — | — | — | (10,911) | (9,548) | (6,749) | (972) |
| Unrealized profit | (738) | 5,883 | (918) | — | — | — | — | — | — | (738) | 5,883 | (918) | (132) |
| Fair value adjustments arose from acquisition of subsidiaries | | | | | | | | | | | | | |
| - Additional depreciation of property, plant and equipment | (911) | (670) | (602) | (686) | (544) | (491) | (227) | (198) | (188) | (1,824) | (1,412) | (1,281) | (185) |
| - Additional amortization of prepaid lease payments | (801) | (762) | (754) | (604) | (618) | (615) | (200) | (225) | (236) | (1,605) | (1,605) | (1,605) | (231) |
| - Amortization of capitalized general borrowing cost of qualifying assets | (191) | (360) | (1,273) | (144) | (292) | (1,041) | (48) | (107) | (400) | (383) | (759) | (2,714) | (391) |
| Total consolidated gross profit, as reported | 193,526 | 105,105 | 129,768 | 324,205 | 188,927 | 201,344 | 71,728 | 69,748 | 56,404 | 589,459 | 363,780 | 387,516 | 55,814 |
| Other income, gains and losses | | | | | | | | | | 25,781 | 16,410 | 11,680 | 1,682 |
| Net exchange gain (loss) | | | | | | | | | | 1,664 | 5,793 | 2,546 | 367 |
| Selling and distribution costs | | | | | | | | | | (253,846) | (212,273) | (181,911) | (26,201) |
| Research and development expenses | | | | | | | | | | (98,040) | (51,253) | (84,639) | (12,191) |
| Administrative expenses | | | | | | | | | | (149,481) | (136,681) | (139,377) | (20,074) |
| Finance costs | | | | | | | | | | (17,606) | (15,913) | (21,387) | (3,080) |
| Profit (loss) before taxation | | | | | | | | | | 97,931 | (30,137) | (25,572) | (3,683) |
| Income tax (expense) credit | | | | | | | | | | (18,704) | 1,570 | (352) | (51) |
| Profit (loss) for the year | | | | | | | | | | 79,227 | (28,567) | (25,924) | (3,734) |

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5. REVENUE AND SEGMENT INFORMATION - continued

The Group's products can be categorized into tubed steel wheels, tubeless steel wheels, off-road steel wheels, aluminum wheels and wheel components. The categorization is mainly based on the type of vehicles to which the respective product is assembled as well as the product's component composition. Revenue from these products is as follows:

| | 2014<br>RMB'000 | 2015<br>RMB'000 | 2016<br>RMB'000 | 2016<br>US$'000 |
|---|---|---|---|---|
| Tubed steel wheels | 1,927,598 | 1,373,210 | 1,227,862 | 176,849 |
| Tubeless steel wheels | 1,252,449 | 918,191 | 818,488 | 117,887 |
| Off-road steel wheels | 55,540 | 43,403 | 36,593 | 5,270 |
| Aluminum wheels | — | 27,413 | 103,759 | 14,944 |
| Wheel components | 98,768 | 83,539 | 62,831 | 9,050 |
| Total consolidated revenue | 3,334,355 | 2,445,756 | 2,249,533 | 324,000 |

**Geographical information**

The Group's operations are located in the PRC. The following table provides an analysis of the Group's sales by geographical markets based on locations of customers:

| | 2014<br>RMB'000 | 2015<br>RMB'000 | 2016<br>RMB'000 | 2016<br>US$'000 |
|---|---|---|---|---|
| The PRC (country of domicile) | 2,818,796 | 2,008,826 | 1,877,996 | 270,488 |
| Thailand | 75,736 | 55,752 | 49,148 | 7,079 |
| Indonesia | 48,380 | 26,134 | 25,556 | 3,681 |
| South Korea | 37,680 | 34,520 | 31,364 | 4,517 |
| India | 3,628 | 5,487 | 4,951 | 713 |
| Others* | 350,135 | 315,037 | 260,518 | 37,522 |
| | 3,334,355 | 2,445,756 | 2,249,533 | 324,000 |

* No further analysis by countries in this category is presented because the revenue from each individual country is insignificant to the total revenue.

All the Group's non-current assets are located in the PRC.

**Information about major customers**

No single customer contributed 10% or more of total sales to the Group during each of the years ended December 31, 2014, 2015 and 2016.

6. OTHER INCOME, GAIN AND LOSS

| | 2014<br>RMB'000 | 2015<br>RMB'000 | 2016<br>RMB'000 | 2016<br>US$'000 |
|---|---|---|---|---|
| Interest income | 17,990 | 14,464 | 11,126 | 1,602 |
| Government grants (note a) | 8,045 | 3,095 | 1,473 | 212 |
| Release of deferred income (note b) | 797 | 796 | 796 | 115 |
| Net loss from sales of scrap materials | (1,051) | (1,945) | (1,715) | (247) |
| | 25,781 | 16,410 | 11,680 | 1,682 |

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6. OTHER INCOME, GAIN AND LOSS - continued

Notes:

(a) Government grants comprised various incentives and subsidies received from the PRC government. There were no unfulfilled conditions attaching to these government grants.

(b) A grant of RMB15,000,000 was received from the PRC government in 2009 to subsidize the Group's construction of a new manufacturing plant and related capital expenditures. It has been presented as deferred income (Note 22) and released to income over the useful lives of the related assets.

7. FINANCE COSTS

| | 2014 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2016 US$'000 |
|---|---|---|---|---|
| Interest on bank borrowings wholly repayable within five years | 32,835 | 31,398 | 25,236 | 3,634 |
| Less: amount capitalized in construction in progress | (15,229) | (15,485) | (3,849) | (554) |
| | 17,606 | 15,913 | 21,387 | 3,080 |

Borrowing costs capitalized arose on the general borrowing pool and are calculated by applying the following capitalization rates:

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| Capitalization rate | 6.0% | 5.6% | 4.5% |

8. INCOME TAX EXPENSE (CREDIT)

| | 2014 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2016 US$'000 |
|---|---|---|---|---|
| Current tax: | | | | |
| PRC Enterprise Income Tax ("EIT") | | | | |
| - current year | 17,428 | 2,825 | 6,610 | 952 |
| - under provision in respect of prior year | 2,132 | — | 1,618 | 233 |
| | 19,560 | 2,825 | 8,228 | 1,185 |
| Deferred tax (Note 17): | | | | |
| - current year | (546) | (4,395) | (7,876) | (1,134) |
| - attributable to change in tax rate | (310) | — | — | — |
| | (856) | (4,395) | (7,876) | (1,134) |
| | 18,704 | (1,570) | 352 | 51 |

The Company is tax exempted in the British Virgin Islands where it was incorporated. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit arising from Hong Kong for the years presented. All the subsidiaries established in the PRC are subject to PRC EIT at the rate of 25%, other than as follows:

(a) Zhengxing Wheel was regarded as a "High-new technology enterprise" pursuant to a certificate jointly issued by the relevant Fujian Government authorities. The certificate was valid for three years commencing from year 2008.

In 2011, Zhengxing Wheel received a certificate to renew its "High-new technology enterprise" status for three years commencing from year 2011, and was entitled to enjoy a preferential tax rate of 15% for the years from 2011 to 2013 provided that the qualifying conditions as a High-new technology enterprise were met. It subsequently received an approval notice to renew its "High-new technology enterprise" status for three years commencing from year 2014, and was entitled to enjoy a preferential tax rate of 15% for the years from 2014 to 2016 provided that the qualifying conditions as a High-new technology enterprise were met.

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8. INCOME TAX EXPENSE (CREDIT) - continued

(b) Zhengxing Langfang was regarded as a "High-new technology enterprise" pursuant to a certificate jointly issued by the relevant Hebei Government authorities. The certificate was valid for three years commencing from year 2009.

In 2013, Zhengxing Langfang received a certificate by the relevant Henan Government authorities to renew its "High-new technology enterprise" status for three years commencing from year 2012, and was entitled to enjoy a preferential tax rate of 15% for the years from 2012 to 2014 provided that the qualifying conditions as a High-new technology enterprise were met. The preferential tax rate expired in 2015 and Zhengxing Langfang is subject to PRC EIT at the rate of 25% thereafter.

(c) Zhengxing Hefei applied for High-new technology enterprise status for the first time prior to December 31, 2010 and subsequently received a certificate jointly issued by the relevant Anhui Government authorities on March 29, 2011. The certificate was valid for three years commencing from year 2010. According to the relevant PRC regulations, Zhengxing Hefei was entitled to enjoy a preferential tax rate of 15% for the years from 2010 to 2012 provided that the qualifying conditions as a High-new technology enterprise were met.

In 2013, Zhengxing Hefei received a certificate to renew its "High-new technology enterprise" status for three years commencing from year 2013, and was entitled to enjoy a preferential tax rate of 15% for the years from 2013 to 2015 provided that the qualifying conditions as a High-new technology enterprise were met. The preferential tax rate expired in 2016 and Zhengxing Hefei is subject to PRC EIT at the rate of 25% thereafter.

(d) Zhengxing Chengdu was established in the western region of the PRC and derived more than 70% of its total income from the business of state-encouraged industry as defined under the "Catalogue of Industries Products and Technologies Encouraged by the State of Development" (the "Catalogue"). According to Caishui [2001] No. 202 issued by the Ministry of Finance and the State Administration of Taxation and the General Administration of Customs, it was entitled to enjoy a preferential tax rate of 15% from its date of establishment to December 31, 2010. Such preferential tax treatment is further extended for a period of ten years from 2011 to 2020 on the condition that the enterprise must be engaged in state encouraged industries as defined under the Catalogue pursuant to Caishui [2011] No. 58 issued during 2011. Zhengxing Chengdu should continue to enjoy the preferential tax rate of 15% in 2014, 2015 and 2016 provided that it was engaged in the state encouraged industry under the Catalogue.

The tax charge for the years stated below can be reconciled to the profit (loss) before taxation per the consolidated statements of comprehensive income as follows:

| | 2014<br>RMB'000 | 2015<br>RMB'000 | 2016<br>RMB'000 | 2016<br>US$'000 |
|---|---|---|---|---|
| Profit (loss) before taxation | 97,931 | (30,137) | (25,572) | (3,683) |
| Tax at the domestic income tax rate of 25% | 24,483 | (7,534) | (6,393) | (921) |
| Tax effect of expenses not deductible for tax purpose | 3,832 | 3,045 | 2,253 | 324 |
| Tax effect of tax losses not recognized | 248 | — | — | — |
| Recognition of tax losses previously not recognized | — | (2,230) | — | — |
| Effect of tax exemption and reliefs granted to PRC subsidiaries | (11,681) | 4,750 | 2,874 | 415 |
| Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate | (310) | — | — | — |
| Under-provision in respect of prior years | 2,132 | 399 | 1,618 | 233 |
| Tax charge (credit) for the year | 18,704 | (1,570) | 352 | 51 |

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9. PROFIT (LOSS) FOR THE YEAR

| | 2014 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2016 US$'000 |
|---|---|---|---|---|
| Profit (loss) for the year has been arrived at after charging: | | | | |
| Directors and key management's remuneration: | | | | |
| - Salary | 7,906 | 4,088 | 3,996 | 576 |
| - Retirement benefit scheme contributions | 48 | 52 | 50 | 7 |
| - Share-based payments | — | — | — | — |
| Total directors and key management's remuneration | 7,954 | 4,140 | 4,046 | 583 |
| Other staff costs | 290,393 | 260,006 | 244,203 | 35,173 |
| Retirement benefit scheme contributions, excluding those of directors and key management | 34,566 | 33,119 | 30,424 | 4,382 |
| Total staff costs | 332,913 | 297,265 | 278,673 | 40,138 |
| Cost of inventories recognized as an expense included in: | | | | |
| - Cost of sales | 2,744,896 | 2,081,976 | 1,862,017 | 268,186 |
| - Sales of scrap materials | 407,884 | 399,391 | 343,738 | 49,509 |
| - Research and development expense | 84,924 | 68,668 | 56,839 | 8,187 |
| Total cost of inventories recognized as an expense | 3,237,704 | 2,550,035 | 2,262,594 | 325,882 |
| Amortization of prepaid lease payments | 9,425 | 9,425 | 9,425 | 1,357 |
| Depreciation of property, plant and equipment | 128,816 | 131,277 | 154,783 | 22,293 |
| Loss on disposal of property, plant and equipment | 22 | 13 | 105 | 15 |

10. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company is based on the following data:

| | 2014 | 2015 | 2016 | 2016 |
|---|---|---|---|---|
| **Earnings (Loss)** | | | | |
| Profit (loss) for the year attributable to owners of the Company (RMB'000) | 79,227 | (28,567) | (25,924) | (3,734) |
| **Number of shares** | | | | |
| Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share | 206,500,000 | 206,500,000 | 206,500,000 | 206,500,000 |
| Effect of dilutive potential ordinary shares | | | | |
| Share incentive plan –restricted shares (Note 25 (ii)(b)) | — | — | — | — |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | 206,500,000 | 206,500,000 | 206,500,000 | 206,500,000 |
| **Earnings (loss) per share** | | | | |
| Basic - RMB | 0.38 | (0.14) | (0.13) | (0.02) |
| Diluted - RMB | 0.38 | (0.14) | (0.13) | (0.02) |

The computation of diluted earnings (loss) per share in 2014, 2015 and 2016 does not assume the exercise of the Company's share options under the share incentive plan as the exercise price of those options is higher than the average market price for shares (see Note 25(ii)(a)).

11. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the years ended December 31, 2014, 2015 and 2016.

12. INVENTORIES

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Raw materials | 79,197 | 51,060 | 7,354 |
| Work in progress | 81,831 | 71,399 | 10,284 |
| Finished goods | 20,877 | 16,281 | 2,345 |
| | 181,905 | 138,740 | 19,983 |

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## 13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Trade receivables | 416,232 | 438,751 | 63,193 |
| Prepayments to raw material suppliers | 84,920 | 123,765 | 17,826 |
| Receivables from sales of scrap materials | 53,556 | 77,496 | 11,162 |
| Value-added tax receivable | 51,068 | 48,698 | 7,014 |
| Income tax recoverable | 5,579 | 5,069 | 730 |
| Other receivables | 2,063 | 2,077 | 299 |
| | 613,418 | 695,856 | 100,224 |

The Group allows its trade customers an average credit period of 30 to 90 days (2015: 30 to 90 days). The following is an aged analysis of trade receivables presented based on the invoice date at the end of each reporting period, which approximated the respective revenue recognition dates.

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| 0 - 30 days | 239,394 | 250,559 | 36,088 |
| 31 - 60 days | 140,780 | 143,347 | 20,646 |
| 61 - 90 days | 36,058 | 44,845 | 6,459 |
| | 416,232 | 438,751 | 63,193 |

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines its credit limits based on the customer's scale of operations and reputation in the industry.

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Neither past due nor impaired | 416,232 | 438,751 | 63,193 |
| Past due but not impaired | | | |
| Less than 1 month past due | — | — | — |
| 1 to 3 months past due | — | — | — |
| | 416,232 | 438,751 | 63,193 |

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

As of December 31, 2015 and 2016, there was no trade receivable past due that have not been impaired.

Trade receivables denominated in currency other than the functional currency of the relevant group entities are set out below:

| | 2015 | 2016 | 2016 |
|---|---|---|---|
| | RMB'000 | RMB'000 | US$'000 |
| US$ | 26,718 | 30,600 | 4,407 |

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14. PREPAID LEASE PAYMENTS

| | As of December 31 | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| The Group's prepaid lease payments comprise were analyzed for reporting purposes as: | | | |
| Non-current assets | 385,874 | 376,449 | 54,220 |
| Current assets | 9,425 | 9,425 | 1,357 |
| | 395,299 | 385,874 | 55,577 |

| | As of December 31 | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Beginning of the year | 404,724 | 395,299 | 56,934 |
| Amortization charge for the year | (9,425) | (9,425) | (1,357) |
| End of the year | 395,299 | 385,874 | 55,577 |

Prepaid lease payments represent the rights to use the land (the "Land Use Rights") in the PRC acquired by the Group. They are amortized over the term of the Land Use Rights on a straight line basis. No impairment loss was made to the carrying amounts of the prepaid lease payments for the years ended December 31, 2014, 2015 and 2016.

15. PLEDGED BANK DEPOSITS/FIXED BANK DEPOSITS WITH MATURITY PERIOD OVER THREE MONTHS/BANK BALANCES AND CASH

*Pledged bank deposits*

These are bank deposits placed at specified bank accounts to secure the Group's bills payable and will be released upon maturity of the relevant bills.

*Fixed bank deposits with maturity period over three months*

These represent fixed bank deposits with an original maturity period over three months.

*Bank balances and cash*

These represent cash and short-term bank deposits with an original maturity of three months or less. Bank balances and cash included fixed bank deposits with with an original maturity period of three months or less totaled RMB360,000,000 (US$51,851,000), which carried fixed interest rate of 1.35% at December 31, 2016 (2015: RMB320,000,000). Cash at banks earns interest at floating rates based on daily bank deposit rates.

The pledged bank deposits, fixed bank deposits with maturity period over three months and bank balances carried fixed interest at the end of the reporting period as follows:

| | 2015 | 2016 |
|---|---|---|
| Range of interest rates (per annum) | 0.35% - 1.80% | 0.35% - 1.55% |

The pledged bank deposits, fixed bank deposits with maturity period over three months and bank balances that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | 2015 | 2016 | 2016 |
|---|---|---|---|
| | RMB'000 | RMB'000 | US$'000 |
| US$ | 250 | 1,409 | 203 |
| Hong Kong Dollar ("HK$") | 171 | 44 | 6 |

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16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| COST | | | | | | |
| As of January 1, 2015 | 733,301 | 896,570 | 6,715 | 18,063 | 542,636 | 2,197,285 |
| Additions | 81 | 81,501 | 35 | 374 | 30,100 | 112,091 |
| Transfer | 219,393 | 258,015 | — | — | (477,408) | — |
| Disposals | — | (70) | (17) | (245) | — | (332) |
| As of December 31, 2015 | 952,775 | 1,236,016 | 6,733 | 18,192 | 95,328 | 2,309,044 |
| Additions | 485 | 22,578 | 5 | 85 | 4,704 | 27,857 |
| Transfer | — | 24,522 | — | — | (24,522) | — |
| Disposals | — | (3,318) | — | — | — | (3,318) |
| As of December 31, 2016 | 953,260 | 1,279,798 | 6,738 | 18,277 | 75,510 | 2,333,583 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | |
| As of January 1, 2015 | 203,797 | 450,789 | 4,627 | 12,505 | — | 671,718 |
| Provided for the year | 40,318 | 88,347 | 676 | 1,936 | — | 131,277 |
| Eliminated on disposal | — | (20) | (16) | (233) | — | (269) |
| As of December 31, 2015 | 244,115 | 539,116 | 5,287 | 14,208 | — | 802,726 |
| Provided for the year | 48,366 | 104,546 | 516 | 1,355 | — | 154,783 |
| Eliminated on disposal | — | (3,213) | — | — | — | (3,213) |
| As of December 31, 2016 | 292,481 | 640,449 | 5,803 | 15,563 | — | 954,296 |
| CARRYING VALUE | | | | | | |
| As of December 31, 2015 | 708,660 | 696,900 | 1,446 | 3,984 | 95,328 | 1,506,318 |
| As of December 31, 2016 | 660,779 | 639,349 | 935 | 2,714 | 75,510 | 1,379,287 |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| As of December 31, 2016 | 95,172 | 92,085 | 135 | 391 | 10,876 | 198,659 |

16. PROPERTY, PLANT AND EQUIPMENT - continued

Depreciation is provided to the above items of property, plant and equipment other than construction in progress so as to write off the cost of assets, over their estimated useful lives and after taking into account their estimated residual value of 5%, using the straight-line method, on the following bases:

| | |
|---|---|
| Buildings | 20 years or the remaining period of the leases, if shorter |
| Plant and machinery | 3 to 13 years |
| Furniture, fixtures and equipment | 5 years |
| Motor vehicles | 5 years |

As of December 31, 2016 and 2015, the Group has not yet obtained property ownership certificate for a portion of its buildings having a carrying amount of RMB191,698,000 (US$27,610,255) and RMB200,891,000, respectively. However, in the opinion of the directors of the Company, the absence of such ownership certificates has no material impact to the ownership of such properties to the Group. The directors expect that they will obtain the property ownership rights by December 2017.

No impairment loss was made to the carrying amounts of the property, plant and equipment for the years ended December 31, 2014, 2015 and 2016.

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17. DEFERRED TAXATION

The following are the major deferred tax (assets) liabilities recognized and movement thereon during the current and prior reporting periods.

| | Unrealized profit in inventories | Undistributed profits of PRC subsidiaries | Deferred income | Fair value adjustment on trade names | Fair value adjustments on acquisition of Zhengxing Wheel other than trade names | Tax loss | Others* | Total |
|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At January 1, 2015 | (1,185) | 53,355 | (1,634) | 4,250 | 20,473 | (7,026) | 5,488 | 73,721 |
| Charge (credit) to profit or loss | 883 | — | 120 | — | (493) | (8,682) | 3,777 | (4,395) |
| At December 31, 2015 | (302) | 53,355 | (1,514) | 4,250 | 19,980 | (15,708) | 9,265 | 69,326 |
| Charge (credit) to profit or loss | (235) | — | 119 | — | (562) | (7,578) | 380 | (7,876) |
| At December 31, 2016 | (537) | 53,355 | (1,395) | 4,250 | 19,418 | (23,286) | 9,645 | 61,450 |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| At December 31, 2016 | (77) | 7,685 | (201) | 612 | 2,797 | (3,354) | 1,389 | 8,851 |

* Others include impairment loss on property, plant and equipment, and interest expense capitalized in construction in progress.

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17. DEFERRED TAXATION – continued

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances in the consolidated statements of financial position for financial reporting purposes:

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Deferred tax assets | (15,958) | (23,836) | (3,433) |
| Deferred tax liabilities | 85,284 | 85,286 | 12,284 |
| | 69,326 | 61,450 | 8,851 |

At the end of each reporting period, the Group had the followings unused tax losses:

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Unused tax losses | 97,701 | 140,427 | 20,226 |

As of December 31, 2016 and 2015, a deferred tax asset has been recognized in respect of RMB130,747,000 (US$18,831,000) and RMB89,934,000 of such losses, respectively. No deferred tax asset in relation to unused tax losses has been recognized in respect of the remaining RMB9,680,000 and RMB7,767,000 to the years ended December 31, 2016 and 2015, respectively, due to the unpredictability of future profit streams. The unused tax losses could be carried forward to offset future taxable profit for five years from the year of origination and will expire at various dates up to and including 2020.

As of December 31, 2015, unused tax loss for which no deferred tax asset has been recognized of RMB7,767,000 will expire in 2019. As of December 31, 2016, unused tax loss for which no deferred tax asset has been recognized of RMB9,680,000 will expire in 2020.

Under the PRC EIT law, withholding income tax is imposed on dividend paid by PRC entities out of its profits earned since January 1, 2008 to its overseas investors (including Hong Kong investors). Deferred taxation on the undistributed profits of the PRC subsidiaries has been provided in the consolidated financial statements to the extent that in the opinion of the directors of the Company such profits will be distributed in the foreseeable future.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognized as of December 31, 2016 and 2015 were RMB1,157,854,000 (US$166,766,000) and RMB1,178,549,000), respectively, as the Group is able to control the timing of the reversal of such temporary differences and it is probable that such temporary differences will not reverse in the foreseeable future.

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18. INTANGIBLE ASSETS

| | RMB'000 | US$'000 |
|---|---|---|
| COST | | |
| As of January 1, 2014, December 31, 2016 and 2015 | 17,000 | 2,449 |

Intangible assets represent trade names acquired as part of a business combination relating to the acquisition of Zhengxing Wheel on December 29, 2008.

The trade names represent various logos, including those bearing the Chinese name of Zhengxing Wheel, registered both in the PRC and overseas.

The trade names have a legal life of 10 years but are renewable at a minimal cost. The directors of the Company are of the opinion that the Group would renew the trade names continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which support that the trade names have no foreseeable limit to the period over which the trade name products are expected to generate net cash flows for the Group.

As a result, the trade names are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trade names will not be amortized until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired.

The recoverable amounts of the intangible assets have been determined by using value-in-use calculation. Having regard to the future plan of the Group, no impairment loss was made to the carrying amounts of the intangible assets for the years ended December 31, 2015 and 2016.

## 19. TRADE AND OTHER PAYABLES AND ACCRUALS

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Trade payables | 61,724 | 116,425 | 16,769 |
| Bills payable - secured (see Note 15) | 282,000 | 321,000 | 46,234 |
| | 343,724 | 437,425 | 63,003 |
| Deposits from distributors | 167,800 | 158,300 | 22,800 |
| Payables in respect of acquisition of property, plant and equipment | 13,013 | 7,475 | 1,077 |
| Other tax payables | 22,029 | 7,513 | 1,082 |
| Advances from an unrelated party (note) | 7,268 | 983 | 142 |
| Accrued staff costs | 28,867 | 29,882 | 4,304 |
| Accrued transportation costs | 12,389 | 16,104 | 2,319 |
| Accrued utilities expenses | 4,124 | 4,991 | 719 |
| Deferred income (see Note 22) | 796 | 796 | 115 |
| Others | 6,912 | 5,164 | 741 |
| | 263,198 | 231,208 | 33,299 |
| | 606,922 | 668,633 | 96,302 |

Note: The advances from an unrelated party are unsecured, interest free and repayable on demand.

In general, the Group is required to make full advance payments (including issuance of bills) to suppliers for the purchases of its major raw materials, steel. Suppliers of other raw materials other than steel generally allow the Group a credit period of 60 days.

Bills payable issued by the Group generally have a maturity of 3 and 6 months.

Other payables are expected to be settled or recognized as income within one year or are repayable on demand.

The Group has financial risk management policies in place to ensure that all payables are settled within the credit period.

## 20. AMOUNT DUE TO A SHAREHOLDER

The amount is unsecured, interest free and repayable on demand.

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## 21. SHORT-TERM BANK BORROWINGS

| | As of December 31, | | |
|---|---|---|---|
| | 2015 RMB'000 | 2016 RMB'000 | 2016 US$'000 |
| Fixed-rate bank borrowings | 558,000 | 558,000 | 80,369 |
| Analyzed as: | | | |
| Secured | 180,000 | 180,000 | 25,925 |
| Unsecured | 378,000 | 378,000 | 54,444 |
| | 558,000 | 558,000 | 80,369 |

Bank borrowings carried the following range of interest rates at the end of the respective reporting period:

| | 2015 | 2016 |
|---|---|---|
| Fixed-rate bank borrowings | 4.4% - 5.6% | 4.4% |

All the Group's bank borrowings are carried at amortized costs and are denominated in RMB.

Details of assets pledged in respect of the Group's secured bank borrowings are set out in Note 26. As of December 31, 2016 and 2015, bank borrowings of RMB558,000,000 (US$80,369,000) and RMB558,000,000, respectively, are guaranteed by certain subsidiaries of the Company.

One of the banking facilities are subject to the fulfillment of covenants. If the Group were in breach of the covenants, the drawn down facilities would become repayable on demand. The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the banks will exercise their discretion to demand repayment so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in Note 30. As at 31 December 2016 and 2015 none of the covenants relating to drawn down facilities had been breached.

## 22. DEFERRED INCOME

Deferred income represents government subsidy received in support of the Group's plant and production capacity expansion. Government subsidy of RMB15,000,000 received by the Group in 2009 has been recognized as deferred income and released to income on a straight-line basis over the useful lives of the related assets of 20 years. As of December 31, 2016 and 2015, non-current deferred income was RMB8,496,000 (US$1,224,000) and RMB9,292,000, respectively, and current portion of deferred income of RMB796,000 (US$115,000) and RMB796,000), respectively, was included in trade and other payables and accruals (Note 19).

## 23. SHARE CAPITAL

| | Number of shares | Amount RMB'000 | Amount US$'000 |
|---|---|---|---|
| Authorized: | | | |
| As of January 1, 2015, December 31, 2015 and 2016 of US$0.0001 each | 500,000,000 | 340 | |
| Issued at nominal value: | | | |
| As of January 1, 2015, December 31, 2015 and 2016 | 206,500,000 | 136 | 20 |

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24. CAPITAL COMMITMENTS

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | | |
| - acquisition of property, plant and equipment | 1,117 | 1,965 | 283 |

25. SHARE-BASED PAYMENT TRANSACTIONS

(i) Restricted shares awarded by Newrace

On December 17, 2010, Newrace agreed to award certain shares it held in the Company to a management executive of the Company at nil consideration for his employment with the Company. These shares, if and when awarded, would be equivalent to 0.25% of the outstanding shares of the Company on the date when the Company successfully completed the initial public offering of its shares on an internationally recognized stock exchange (the "IPO").

The Company completed its IPO on May 17, 2011 (the "Registration Date") and 516,100 shares of US$0.0001 each in the Company were awarded to the management executive (the "Newrace Restricted Shares") subject to his continuous employment with the Company and in accordance with the following vesting schedule:

- 35% of the Newrace Restricted Shares vested on May 17, 2011;
- 25% of the Newrace Restricted Shares vested on December 31, 2011;
- 20% of the Newrace Restricted Shares vested on December 31, 2012; and
- 20% of the Newrace Restricted Shares vested on December 31, 2013

In addition to the above vesting conditions, the management executive has also agreed not to sell, contract to sell, grant any option to purchase, transfer the economic risk of ownership in, make any short sale of, pledge or otherwise transfer or dispose of any interest in the Newrace Restricted Shares during the 200-day period following the Registration Date.

The total fair value of the Newrace Restricted Shares determined at the date of grant is approximately US$600,000 calculated using the Binomial Option Pricing model. The major assumptions used for the calculation are as follows:

| | |
|---|---|
| Estimated share price at date of grant | US$1.52 |
| Expected volatility | 44.77% to 62.89% |
| Expected life | 0.4 to 3.04 years |
| Risk free rate | 0.15% to 1.01% |
| Lock-up discount | 11.19% to 39.53% |

The expected volatility was estimated based on the historical daily share price volatility of comparable companies over a historical period commensurate with the locked-up period of the Newrace Restricted Shares.

The award of Newrace Restricted Shares is regarded as a contribution by the Company's equity participant. No share-based payment expense was recognized for the years ended December 31, 2014, 2015 and 2016 in relation to the Newrace Restricted Shares with reference to their vesting period, with a corresponding credit to the Company's capital reserve account.

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25. SHARE-BASED PAYMENT TRANSACTIONS - continued

(ii) Share Incentive Plan (the "Plan")

The Company adopted the Plan on February 24, 2011 which shall continue in effect for a period of 10 years unless sooner terminated. The purpose of the Plan is to attract and retain the best available personnel, to provide additional incentives to employees (including officers and directors) and consultants and to promote the success of the Company's business. Pursuant to the Plan, the Company's Board of Directors (the "Board") may, at its discretion, offer to grant incentive share options ("Share Option"), share appreciation rights ("SAR"), dividend equivalent right, restricted shares or other similar benefits (collectively referred to as the "Award") to any employees or consultants of the Company, its parents or its subsidiaries. The principal terms of the Plan, amongst others, are as follows:

- Subject to adjustments upon changes in the Company's capitalization, the maximum aggregate number of shares of US$0.0001 each (the "Share(s)") in the Company which may be issued pursuant to the Awards is 25,000,000 Shares. SARs payable in Shares shall reduce the maximum aggregate number of Shares which may be issued under the Plan only by the net number of actual Shares issued to the grantee upon exercise of the SAR. The Shares to be issued pursuant to Awards may be authorized, but unissued, or repurchased Shares.
- Subject to the terms of the Plan, the Administrator (being the Board or another committee appointed to administer the Plan) shall determine the provisions, terms, and conditions of each Award including but not limited to, the Award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment upon settlement of the Award, payment contingencies, and satisfaction of any performance criteria.
- The term of each Award shall be the term stated in the Award agreement provided, however, that the term of a Share Option shall be no more than 10 years from the date of grant thereof. However, in the case of a Share Option granted to a grantee who, at the time the Share Option is granted, owns Shares representing more than 10% of the voting power of all classes of shares of the Company or any parent or subsidiary of the Company ("10% Shareholder"), the term of the Share Option shall be 5 years from the date of grant thereof or such shorter term as may be provided in the Award agreement. Notwithstanding the foregoing, the specified term of any Award shall not include any period for which the grantee has elected to defer the receipt of the Shares or cash issuable pursuant to the Award.
- The date of grant of an Award shall for all purposes be the date on which the Administrator makes the determination to grant such Award, or such other later date as is determined by the Administrator.
- The exercise price of an Share Option shall be not less than 100% of the quoted market value of the Share on the New York Stock Exchange on the date of grant unless the grantee is a 10% Shareholder in such a case the exercise price shall be not less than 110% of the quoted market value of the Share on the New York Stock Exchange on the date of grant.

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25. SHARE-BASED PAYMENT TRANSACTIONS - continued

(ii) Share Incentive Plan (the "Plan") - continued

- In the case of SAR, the base appreciation amount shall not be less than 100% of the quoted market value of the Share on the New York Stock Exchange on the date of grant.
- In the case of other Awards, the purchase price shall be determined by the Administrator.

(a) On August 17, 2011 (the "Grant Date"), pursuant to the Plan and in accordance with an employment agreement with a management executive of the Company, the Company granted the management executive Share Option to subscribe for a total of 1,032,200 Shares at an exercise price of US$1.175 per share (being the market value of the Shares on the Grant Date). One-third of the Shares subject to the Share Options shall vest on December 17, 2011 (the "Vesting Commencement Date"), with the remaining Shares vesting ratably on a monthly basis for the twenty four month period following the Vesting Commencement Date. As of December 31, 2016 and 2015, the number of exercisable option shares was 1,032,200.

The following table discloses movements in the Company's Share Option during the years ended December 31, 2015 and 2016:

| Date of grant | Vesting period | Exercise price | Exercisable period | Fair value of each option |
|---|---|---|---|---|
| 8.17.2011 | 8.17.2011 to 12.17.2013 | US$1.175 | 12.18.2011 to 8.17.2019 | US$0.4807 to US$0.4993 |

The total fair value of the Share Option at the date of grant is approximately US$499,000 (equivalent to RMB3,216,000) calculated using the Binomial Option Pricing model. The major assumptions used for the calculation are as follows:

| | |
|---|---|
| Share price at date of grant | US$ 1.175 |
| Exercise price | US$ 1.175 |
| Expected volatility | 38.14% |
| Expected life | 8 years |
| Risk free rate | 2.00% |

The expected volatility was estimated based on the historical daily share price volatility of comparable companies over a historical period commensurate with the expected life of the options.

(b) During the year ended December 31, 2012, the Company granted 5,000 restricted share units to each of the Company's three independent non-executive directors (totaling 15,000 restricted shares, representing a total of 60,000 shares). Such shares are to be fully vested on the second business day following the public release of the Company's earnings results for the year ended December 31, 2012. The estimated fair value of these share grants is approximately US$58,000. On March 25, 2013, the Company allotted and issued 20,000 ordinary shares of a par value of US$0.0001 to each of the three independent non-executive directors, pursuant to the vesting of the above restricted share unit award agreement.

No share-payment expenses was recognized for the years ended December 31, 2014, 2015 and 2016, respectively in relation to the Share Option and the restricted share units with reference to their vesting period.

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26. PLEDGE OF ASSETS

At the end of each reporting period, the carrying value of the Group's assets which were pledged to secure credit facilities granted to the Group are as follows:

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Bank deposits | 28,200 | 32,100 | 4,623 |
| Property, plant and equipment | 71,761 | 65,756 | 9,471 |
| Prepaid lease payments | 60,736 | 59,196 | 8,526 |
| | 160,697 | 157,052 | 22,620 |

27. RETIREMENT BENEFIT PLANS

The employees of the Group's subsidiaries in the PRC are members of state-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

The amount of contributions to retirement benefit scheme was RMB34,614,000 and RMB33,171,000 and RMB30,474,000 (US$4,389,000) for the years ended December 31, 2014, 2015 and 2016, respectively.

28. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The emoluments of directors of the Company and other members of key management during the years ended December 31, 2014, 2015 and 2016 are set out in Note 9.

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## 29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged during the reporting periods.

The capital structure of the Group consists of debts, which includes bank borrowings as disclosed in Note 21, and equity attributable to equity holders of the Company, comprising capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost and the risks associated with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, raise of new capital as well as the raise of new borrowings or the repayment of existing borrowings.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group manages capital risk by reference to total equity compared with total borrowings. As of December 31, 2015 and 2016, these metrics were as follows:

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Bank borrowings | 558,000 | 558,000 | 80,369 |
| Advances from an unrelated party | 7,268 | 983 | 142 |
| Amount due to a shareholder | 11,679 | 1,398 | 201 |
| Total borrowings | 576,947 | 560,381 | 80,712 |
| Total Equity | 2,563,494 | 2,537,570 | 365,487 |

| | 2015 | 2016 |
|---|---|---|
| Debt (total liabilities) to equity ratio | 49.6% | 52.1% |

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30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| **Financial assets** | | | |
| Loans and receivables (including cash and cash equivalents) | 1,577,298 | 1,737,223 | 250,212 |
| **Financial liabilities** | | | |
| Financial liabilities at amortized cost | 1,152,928 | 1,218,987 | 175,571 |

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, trade and other payables, pledged bank deposits, fixed bank deposits with maturity period over three months, bank balances and cash and bank borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Group's management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Interest rate risk**

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 21), amount due to a shareholder (see Note 20), advance from an unrelated party (see Note 19) and fixed bank deposits, which carry fixed interest rate. The Group is also exposed to cash flow interest rate risk in relation to bank balances and pledged bank deposits because these balances carry interest at prevailing rates. However, such exposure is minimal to the Group and the bank balances and pledged bank deposits are of short maturity.

The Group currently does not have any interest rate hedging policy in relation to fair value interest rate risk and cash flow interest rate risk. The directors monitor the Group's exposure on an ongoing basis and will consider hedging the interest rate should the need arise.

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for bank deposits and pledged bank deposits at the end of the reporting periods. The analysis is prepared assuming the amounts outstanding at the end of the reporting periods were outstanding for the whole year. If interest rates had been 10 basis points higher/lower for bank deposits and pledged bank deposits, and all other variables were held constant, the Group's pre tax loss for the year would have decreased/increased by the following amount:

| | 2015 | 2016 | 2016 |
|---|---|---|---|
| | RMB'000 | RMB'000 | US$'000 |
| Pre-tax loss for the year | 525 | 569 | 82 |

The 10 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2015.

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30. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

**Credit risk**

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position.

The Group's credit risk is primarily attributable to trade receivables. In order to minimize the credit risk, the management of the Group has assigned a team to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Ongoing credit evaluation is performed on the financial condition of customers. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group also requires deposits from its distributors. In this regard, the directors consider that the Group's credit risk on receivables is significantly reduced.

The Group's total trade receivables due from the five largest customers accounted for 18.9% and 20.2% of its total trade receivables as of December 31, 2016 and 2015, respectively.

The credit risk on liquid funds is limited because the counterparties are banks with good reputations.

**Currency risk**

The Group has foreign currency sales which expose the Group to risk due to changes in foreign exchange rates. At the end of each reporting period, the carrying amounts of the Group's monetary assets denominated in a currency other than the functional currency of the relevant entities were as follows:

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Assets (HK$) | 171 | 44 | 6 |
| Assets (US$) | 26,968 | 32,009 | 4,610 |
| Liabilities (US$) | 11,679 | 1,398 | 201 |

*Sensitivity analysis*

The Group's foreign currency risk is mainly concentrated on the fluctuation of US$ and HK$. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the years end for a 5% change. On this basis, if RMB depreciates against foreign currencies by 5%, the Group's pre-tax loss for the year would have decreased/increased by the following amount, and vice versa.

| | 2015 | 2016 | 2016 |
|---|---|---|---|
| | RMB'000 | RMB'000 | US$'000 |
| Pre-tax loss for the year | 773 | 1,533 | 221 |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of next annual reporting period. The analysis is performed on the same basis for 2015.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

**Liquidity risk**

The Group's policy is to regularly monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of borrowings, its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

| | Weighted average effective interest rate | On demand/ less than 3 months | 3 months to 1 year | Total undiscounted cash flows | Carrying amount | Carrying amount |
|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | US$'000 |
| **As of December 31, 2015** | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| Trade and other payables | — | 451,249 | 132,000 | 583,249 | 583,249 | |
| Bank borrowings - fixed rate | 5.61 | 259,569 | 310,416 | 569,985 | 558,000 | |
| Amount due to a shareholder | | 11,679 | — | 11,679 | 11,679 | |
| | | 722,497 | 442,416 | 1,164,913 | 1,152,928 | |
| **As of December 31, 2016** | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| Trade and other payables | | 482,690 | 176,900 | 659,590 | 659,590 | 95,001 |
| Bank borrowings – fixed rate | 4.35% | 259,168 | 310,160 | 569,328 | 558,000 | 80,369 |
| Amount due to a shareholder | | 1,398 | — | 1,398 | 1,398 | 201 |
| | | 743,256 | 487,060 | 1,230,316 | 1,218,988 | 175,571 |

**Commodity price risk**

The major raw material used in the production of the Company's products includes steel. The Group is exposed to fluctuation in the prices of this raw material which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(c) Fair value

No disclosure of fair value is required as all of the Group's financial assets and liabilities are carried at amounts not materially different from their fair values as of December 31, 2015 and 2016.

CHINA ZENIX AUTO INTERNATIONAL LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014, 2015 and 2016

31. OPERATING LEASES

**The Group as lessee**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2016 | 2016 |
| | RMB'000 | RMB'000 | US$'000 |
| Minimum lease payments paid under operating leases during the year: | | | |
| Office premises | 85 | — | — |

At the end of each reporting period, the Group had no commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises.

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases of office properties are negotiated for an average term of 3 years with fixed rentals.

32. LITIGATIONS

In February 2014, three minority shareholders of the Company (the "Claimants") filed a claim against the Company in the Eastern Caribbean Supreme Court of the British Virgin Islands alleging that affairs of the Company had been conducted in a manner oppressive to them as minority shareheolders (the "Claim"). In November 2014, the Claimants served an amended claim (the "Re-Amended Claim) on the Company and included three other defendants to the proceedings, including the chairman of the Company. The Company served its Defense in response to the Claim on April 28, 2014 and its Amended Defense in response to the Re-Amended Claim on January 23, 2015. Specifically, the Claim arose from a restructuring proposal made by the chairman of the Company and the other defendants (collectively, the "Consortium") to the Company on November 23, 2013, which was subsequently withdrawn by the Consortium on July 18, 2014.

On February 17, 2017, the Company, the Consortium and the Claimants reached a confidential agreement to settle the Claim.

In consideration of the terms of settlement, the Claimants agreed to discontinue their claims against the Company and the Consortium without any presumption or admission of liability or any wrongdoing on the part of the Company and the Consortium. The Company is a party to the settlement but does not have the obligation to make any payment to the Claimants, nor will the settlement affect the Company's business operations. Each party had also agreed to be responsible for their own legal costs.

33. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on April 28, 2017.

ADDITIONAL INFORMATION - FINANCIAL STATEMENT SCHEDULE 1
CHINA ZENIX AUTO INTERNATIONAL LIMITED
PARENT COMPANY FINANCIAL INFORMATION
Condensed Statements of Profit or Loss and Other Comprehensive Loss
For the years ended December 31, 2014, 2015 and 2016

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Other income | — | — | — |
| Net exchange gain (loss) | (75) | (3,265) | (3,196) |
| Administrative expenses | (14,502) | (6,821) | (4,768) |
| Loss and total comprehensive loss for the year | (14,577) | (10,086) | (7,964) |

CHINA ZENIX AUTO INTERNATIONAL LIMITED
PARENT COMPANY FINANCIAL INFORMATION
Condensed Statements of Financial Position

| | As of December 31, | |
|---|---|---|
| | 2015 | 2016 |
| | RMB'000 | RMB'000 |
| ASSETS | | |
| Current assets | | |
| Prepayments | 13 | 17 |
| Bank balances | 139 | 51 |
| | 152 | 68 |
| Non-current asset | | |
| Investment in a subsidiary | 940,198 | 940,198 |
| Total assets | 940,350 | 940,266 |
| EQUITY AND LIABILITIES | | |
| Current and total liabilities | | |
| Other payables | 13,061 | 6,701 |
| Amount due to a shareholder | 11,679 | 1,398 |
| Amount due to a subsidiary | 49,299 | 73,820 |
| | 74,039 | 81,919 |
| EQUITY | | |
| Share capital (US$0.0001 par value, 500,000,000 shares authorized, 206,500,000 ordinary shares issued and outstanding as of December 31, 2015 and 2016) | 136 | 136 |
| Additional paid-in capital | 392,076 | 392,076 |
| Reserves | 474,099 | 466,135 |
| Total equity | 866,311 | 858,347 |
| Total equity and liabilities | 940,350 | 940,266 |

CHINA ZENIX AUTO INTERNATIONAL LIMITED
PARENT COMPANY FINANCIAL INFORMATION
Condensed Statements of Changes in Equity
For the years ended December 31, 2014, 2015 and 2016

| | Share capital RMB'000 | Additional paid in capital RMB'000 | Capital reserve RMB'000 | Share incentive plan reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| As of January 1, 2014 | 136 | 392,076 | 560,892 | 3,110 | (65,240) | 890,974 |
| Loss and total comprehensive loss for the year | — | — | — | — | (14,577) | (14,577) |
| As of December 31, 2014 | 136 | 392,076 | 560,892 | 3,110 | (79,817) | 876,397 |
| Loss and total comprehensive loss for the year | — | — | — | — | (10,086) | (10,086) |
| As of December 31, 2015 | 136 | 392,076 | 560,892 | 3,110 | (89,903) | 866,311 |
| Loss and total comprehensive loss for the year | | | | | (7,964) | (7,964) |
| As of December 31, 2016 | 136 | 392,076 | 560,892 | 3,110 | (97,867) | 858,347 |

CHINA ZENIX AUTO INTERNATIONAL LIMITED
PARENT COMPANY FINANCIAL INFORMATION
Condensed Statements of Cash Flows
For the years ended December 31, 2014, 2015 and 2016

| | 2014 RMB'000 | 2015 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Loss for the year | (14,577) | (10,086) | (7,964) |
| Adjustment for share-based payments | — | — | |
| Exchange loss | — | 2,911 | 2,601 |
| Operating cash flows before movements in working capital | (14,577) | (7,175) | (5,363) |
| Decrease (increase in prepayments | 168 | 2 | (4) |
| (Decrease) increase in other payables | (1,651) | 543 | (6,360) |
| NET CASH USED IN OPERATING ACTIVITIES | (16,060) | (6,630) | (11,727) |
| FINANCING ACTIVITIES | | | |
| Advance from a subsidiary | 10,028 | 361 | 21,911 |
| Repayment to a shareholder | — | — | (14,736) |
| Advance from a shareholder | 5,507 | 6,172 | 4,455 |
| NET CASH FROM FINANCING ACTIVITIES | 15,535 | 6,533 | 11,630 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (525) | (97) | (97) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 563 | 161 | 139 |
| EFFECT OF CHANGE IN FOREIGN CURRENCY RATE | 123 | 75 | 9 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | | |
| - representing bank balances | 161 | 139 | 51 |

Basis of Presentation

Schedule 1 has been provided pursuant to the requirements of Rules 12-04(a) and 4-08(e)(3) of Regulation S-X, which require condensed financial information as to financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

For the purpose of presenting the financial information of the parent company only, the Company records its investment in subsidiaries under the cost method of accounting. Such investment is presented on the statements of financial position as “Investment in a subsidiary” at cost less any identified impairment loss.

As of December 31, 2015 and 2016, there were no material contingencies, significant provisions of long term obligations, mandatory dividend or redemption requirements of redeemable stocks or guarantees of the Company, except for those which have been separately disclosed in the Group’s consolidated financial statements, if any.

For all years presented, there were no cash dividends paid to the Company by its consolidated subsidiaries.

**Exhibit 8.1**

## SUBSIDIARIES OF CHINA ZENIX AUTO INTERNATIONAL LIMITED

| Subsidiary | Jurisdiction of Organization |
|---|---|
| China Wheel Limited | Hong Kong |
| Zhengxing Wheel Group Co., Ltd. | The People's Republic of China |
| Zhengxing Group Langfang Wheel Co., Ltd. | The People's Republic of China |
| Zhengxing Group Chengdu Wheel Co., Ltd. | The People's Republic of China |
| Zhengxing Group Hefei Wheel Co., Ltd. | The People's Republic of China |
| Zhengxing Group Benxi Wheel Co., Ltd. | The People's Republic of China |
| Hua'an Zhengxing Wheel Co., Ltd. | The People's Republic of China |

**Exhibit 12.1**

# CERTIFICATION

I, Jianhui Lai, certify that:

1. I have reviewed this annual report on Form 20-F of China Zenix Auto International Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 28, 2017

By: /s/ Jianhui Lai
Jianhui Lai
Chief Executive Officer

**Exhibit 12.2**

# CERTIFICATION

I, Martin Cheung, certify that:

1. I have reviewed this annual report on Form 20-F of China Zenix Auto International Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 28, 2017

By: /s/ Martin Cheung
Martin Cheung
Chief Financial Officer

**Exhibit 13.1**

906 Certification

Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C. 20549

Ladies and Gentlemen:

In connection with the annual report of China Zenix Auto International Limited (the “Company”) on Form 20-F for the year ended December 31, 2014 as filed with the Securities and Exchange Commission (the “Report”), I, Jianhui Lai, the Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certificate has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Date: April 28, 2017

By: /s/ Jianhui Lai
Name: Jianhui Lai
Title: Chief Executive Officer

**Exhibit 13.2**

906 Certification

Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C. 20549

Ladies and Gentlemen:

In connection with the annual report of China Zenix Auto International Limited (the “Company”) on Form 20-F for the year ended December 31, 2014 as filed with the Securities and Exchange Commission (the “Report”), I, Martin Cheung, the Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certificate has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Date: April 28, 2017

| | |
|---|---|
| By: | /s/ Martin Cheung |
| Name: | Martin Cheung |
| Title: | Chief Financial Officer |

**Exhibit 15.1**

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-178271) of China Zenix Auto International Limited of our report dated April 28, 2017 relating to the consolidated financial statements and financial statement schedule of China Zenix Auto International Limited and its subsidiaries (the “Group”) (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the convenience translation of Renminbi amounts into United States dollar amounts), appearing in the Annual Report on Form 20-F of China Zenix Auto International Limited for the year ended December 31, 2016.

/s/ Centurion ZD CPA Limited

Centurion ZD CPA Limited
Hong Kong, the People’s Republic of China
April 28, 2017