

Stock code: 002085 Stock Abbr.: Wanfeng Auto Wheel Announcement Code: 2020-044

Zhejiang Wanfeng Auto Wheel Co., Ltd. Annual Report 2019 (Abstract)

I. Important Notes

This Abstract is extracted from 2019 Annual Report of Zhejiang Wanfeng Auto Wheel Co., Ltd. (“the Company”). In order to have a full understanding of the operating results, financial status and future development planning of the Company, investors are suggested to read the full report carefully on the media designated by the China Securities Regulatory Commission (the “CSRC”).

Statement of objection by directors, supervisors, and senior management

Name	Title	Content and Reason
Statement		

Except for the following directors, other directors personally attended the board meeting to review this annual report

Name of director not present in person	Title of director not present in person	Reason for not attending the meeting in person	Proxy Name

Indicate by check mark if independent auditor issues non-standard unqualified opinion

☒Applicable ☐Not applicable

Ernst & Young has issued an audit report with qualified opinion and emphasis paragraph for the Company. The Board of Directors and Board of Supervisors of the Company have already explained relevant matters in detail. Please read it carefully.

Indicate by check mark if there is a pre-arranged plan of profit distribution to common stockholders or converting capital reserve into common stock for the report period which has been reviewed and approved by the Board of Directors

☐Applicable ☒Not applicable

The Company plans not to distribute cash dividend or bonus shares, nor to convert capital reserve into common stock.

Indicate by check mark if there is pre-arranged plan for profit distribution to preferred stockholders for the report period which has been reviewed and approved by the Board of Directors

☐Applicable ☒Not applicable

II. Company Introduction

1. Company Profile

Stock abbr.	Wanfeng Auto Wheel	Stock code	002085
Stock exchange	Shenzhen Stock Exchange		
Contact information	Board Secretary	Securities Representative	
Name	Yinfeng Zhang	Ya Li	
Office address	Industrial Zone, Xinchang County, Zhejiang, China.	Industrial Zone, Xinchang County, Zhejiang, China.	
Telephone	0575-86298339	0575-86298339	
Email	yinfeng.zhang@wfjt.com	ya.li@wfjt.com	

2. Brief introduction to main business or products in the report period

As a diversified international auto parts supplier focusing on "broad transportation", the Company's businesses covered automobiles and motorcycles aluminum alloy wheels, lightweight magnesium alloy parts, environmentally friendly Dacromet coating, and die stamping parts during the reporting period. Through comprehensive technology R&D and industrial integration of these four major segments, it possesses global manufacturing capabilities and supporting system to satisfy varieties of customer needs.

(1) Aluminum Alloy Wheels

As the first listed company in the industry, the Company has committed itself to the R&D, manufacturing, sales, and after-sales service of high-end aluminum alloy wheels since its establishment, serving the world-known OEMs through superior product design, a sound manufacturing and after-sales guarantee system. The Company continues to implement the "26313" sales strategy (US pedigree: GM, Ford; European pedigree: Volkswagen, BMW, Mercedes-Benz, Fiat Chrysler, Peugeot, Land Rover; Japanese pedigree: Toyota, Honda, Nissan; Korean pedigree: Hyundai-Kia; Chinese pedigree: Chery, BYD, JAC), advocate intelligent manufacturing and R&D investment in the wheel industry, enhance the company's international influence in product quality, R&D and design. The company has always been centering on "India, Indonesia, Pakistan, Brazil and China" to enlarge its market share of motorcycle wheels business and form a global market layout with "Honda and Yamaha" as the mainstay and Dachangjiang, Suzuki and HERO as supplements.

The Company is one of the drafting and revision members for the international standards and national standards in the industry. With an annual output of more than 40 million sets of aluminum alloy wheels, it has become a global leader in the respective industry segment. In the "Industry 4.0" era characterized by informatization and industrialization, the Company has built a smart factory, the first among its peers, and has explored an innovative model featured by digital intelligence and care to environment.

(2) Lightweight Magnesium Alloy

Magnesium alloy products are mainly used in industrial sectors such as automobiles, aerospace, transportation, etc. The demand for lightweight magnesium alloy structural parts in the automotive industry continues to rise. The Company's production bases are widely located in

the United States, Canada, the United Kingdom, Mexico and China (Shandong, Shanghai, Zhejiang); Our main products involve powertrain parts, front-end carriers, cross car beams, brackets, rear lift door inner panels and other auto parts. The Company has a market share of more than 65% in North America. The customers are mainly top-notch global brands such as Porsche, Tesla, and Audi. As a global leader in the advanced treatment of lightweight magnesium alloy materials, the Company has strong integration capabilities of value chain. Through synergistic R&D, production, and market development of magnesium alloy components between Wanfeng MLTH and Weihai Wanfeng Magnesium Industry, the Company has continuously marketed its products to transportation, defense, 5G construction and other fields.

(3) Environmentally Friendly Dacromet Coating

The Company's environmentally friendly Dacromet coating business includes metal bolt manufacturing and processing, mechanical parts coating treatment, coating equipment, etc. It is equipped with production and technical application capabilities of Chromium-free Dacromet coating processing, solution manufacturing and coating equipment production throughout the industrial chain. The Company has taken the lead in the application of digitalization and Chromium-free coating technology and has the world's advanced chromium-free coating production line to ensure that the product quality meets the "EU ROHS Directive" standards. The multifunctional composite coating developed by the Company has been awarded the honor of "National Key New Product", "Shanghai Key New Product" and "Quality Trusted Key Brand of China's Environmentally Friendly Product" for many times. The Company has established strategic partnerships with globally recognized brands such as Delta, Geomet, and Zintech. Customers widely spread in industries such as automobile, rail transit, wind power, mechanical engineering, and construction.

(4) Die Stamping

Wuxi Xiongwei's main products are automotive stamping parts and molds, focusing on automotive body systems, seat parts and body accessories, such as seat frames and adjustment structures, seat belt buckles, airbags stamping parts, door hinges, etc. With strong mold R&D and design capabilities, the Company has become a core supplier of globally renowned manufacturers such as Faurecia, Brose, Autoliv, and Adient. By continuously optimizing the design of products and gradually introducing advanced mold design systems, product quality has been improved and costs have been reduced. The Company has been awarded the "Best Supplier" and "Excellent Supplier" from our customers such as Yanfeng Adient and Faurecia. With a good reputation in the industry, the Company is recognized as a Private Sci-Tech Enterprise in Jiangsu Province, a High-tech Enterprise in Wuxi City, a standing member of the China Die and Mould Industry Association, and a vice chairman member of the Jiangsu Die and Mould Association.

3. Selected Financial Data

(1) Key accounting data and financial ratios for the past three years

Indicate by check mark if there is any retrospectively restated accounting data of previous years.

☐Yes ☒No

Unit: Million Yuan unless otherwise stated

	2019	2018	Increase/decrease of current year over prior year (%)	2017
Revenue	10,788	11,005	-1.97%	10,177
Net profit attributable to shareholders	769	959	-19.75%	901
Net profit attributable to shareholders excluding non-recurring gains and losses	578	734	-21.18%	770
Net cash flows from operating activities	1,362	1,316	3.49%	973
Basic EPS (RMB Yuan / share)	0.36	0.44	-18.18%	0.41
Diluted EPS (RMB Yuan / share)	0.36	0.44	-18.18%	0.41
Weighted average ROE (%)	12.58%	13.93%	-1.35%	15.96%
	As of Dec 31, 2019	As of Dec 31, 2018	Increase/decrease of current year over prior year (%)	As of Dec 31, 2017
Total assets	13,989	13,393	4.45%	10,049
Net assets attributable to shareholders	6,151	6,331	-2.84%	6,009

(2) Key accounting data by quarter

Unit: Million Yuan

	Q1	Q2	Q3	Q4
Revenue	2,456	2,567	2,656	3,108
Net profit attributable to shareholders	203	217	182	167
Net profit attributable to shareholders excluding non-recurring gains and losses	167	184	118	110
Net cash flows from operating activities	67	440	368	488

Indicate by check mark if any material difference between the above financial indicators or their summations and those disclosed in the Company's Quarterly or Interim report.

☐ Yes ☒ No

4. Equity Capital and Shareholders**(1) Top 10 shareholders of common stock and preferred stock with resumed voting rights**

Unit: Share

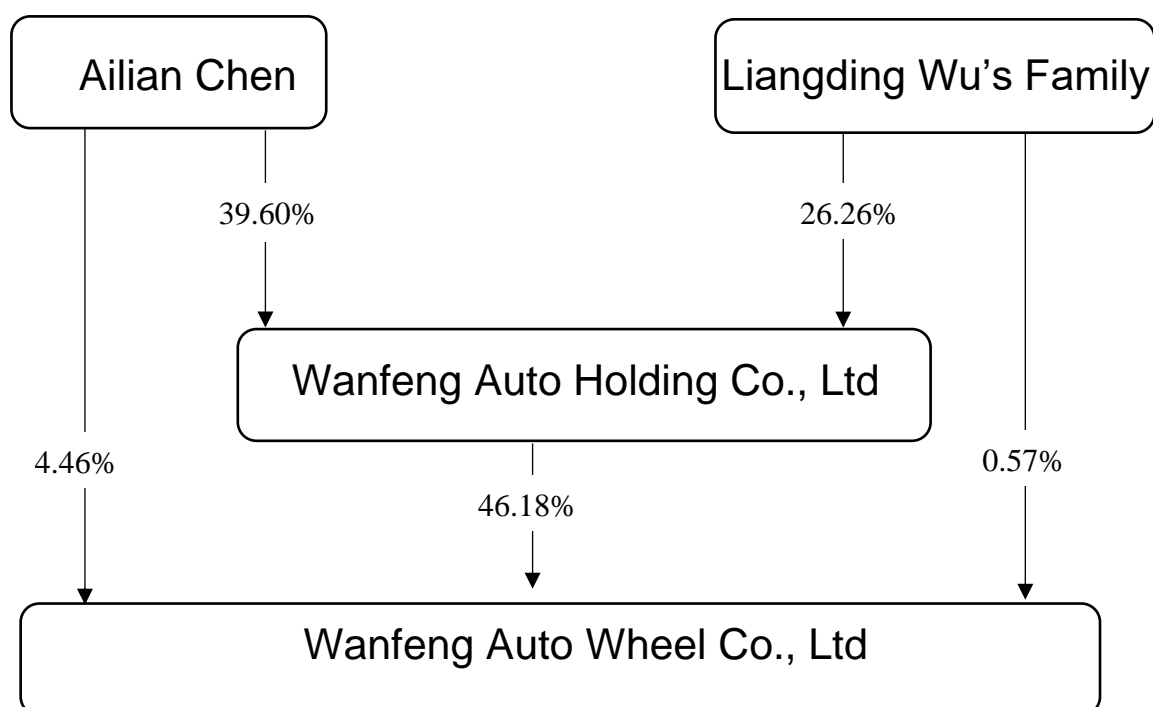
Total number of shareholders of common stocks at the end of the reporting period	29,253	Total number of shareholders of common stocks at previous month-end of this report's disclosure	28,084	Total number of shareholders of preferred stock with resumed voting right at the end of the reporting period (see note 8)	0	Total number of shareholders of preferred stock with resumed voting rights at previous month-end of this report's disclosure (see note 8)	0
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Top 10 Shareholders							
Name	Nature	Ownership	Quantity of stocks at the reporting period end	Quantity of restricted stocks held	Quantity of unrestricted stocks held	Pledged or frozen stocks	
						Status	Quantity
Wanfeng Auto Holding Group	Domestic non-state-owned corporate	46.18%	1,009,922,929	0	1,009,922,929	pledged	763,050,000
Aeon Life Insurance Company Limited – traditional insurance products	Other	5.87%	128,414,138	0	128,414,138		
Ailian Chen	Domestic natural person	4.46%	97,525,560	73,144,170	24,381,390	pledged	79,380,000
CCB Principal Asset Management- Industrial Bank- China Fortune Trust- China Fortune Trust ·Huizhi Investments No.54 Structural trust plan of assembled funds	Other	4.26%	93,215,197	0	93,215,197		
China Fortune International Trust Co., Ltd - China Fortune Trust· Xinang No.13 Securities Investments trust plan of assembled funds	Other	2.74%	60,000,000	0	60,000,000		
Chang'An International Trust Co., Ltd. – Chang'An Trust-Zhejiang Wanfeng Auto Wheel Co., Ltd First Phase Employee Stock trust plan of assembled funds	Other	2.08%	45,429,282	0	45,429,282		
Aeon Life Insurance Company Limited – participating insurance products	Other	1.94%	42,329,493	0	42,329,493		
Shanghai Raas Blood Products Co. Ltd	Domestic non-state-owned corporate	1.93%	42,200,000	0	42,200,000		
Shaanxi International Trust Co., Ltd.- Shaanxi Intl Trust Jixiangrui No.2 Targeted Investments trust plan of assembled funds	Other	1.68%	36,700,000	0	36,700,000		
Chang'An International Trust Co., Ltd. – Chang'An Trust- Chang'An Investment No.633 Securities Investments trust plan of assembled funds	Other	1.67%	36,420,000	0	36,420,000		
Explanation on the above-mentioned shareholders' affiliated relationship or concerted action	Among the above-mentioned top ten shareholders, Wanfeng Auto Holding Group holds 46.18% of the Company's shares and is the controlling shareholder. Ms. Ailian Chen holds 4.46% of the Company's shares and owns 39.6% of Wanfeng Auto Holding Group, therefore the actual controller of the Company. Among other shareholders, CCB Principal Asset Management- Industrial Bank- China Fortune Trust- China Fortune Trust · Huizhi Investments No.54 Structural Pooled Funds Trust Plan became a shareholder through private placement in 2015. The Company is not made aware whether there is any affiliated relationship between the other shareholders or whether they are persons acting in concert.						
Explanation on the above-mentioned top ten shareholders that are engaged in margin trading business (if any) (see note 4)	Not applicable						

(2) Total number of and top 10 shareholders of preferred stocks

☐Applicable ☒Not applicable

No shareholders holding preferred stocks noted in the reporting period

(3) The ownership and controlling relationship between the Company and its actual controller in form of diagram**5. Bonds**

Does the Company have any corporate bonds that are publicly issued and listed on the securities exchange and that are not due or not fully redeemed when due as of the approved issuance date of the Annual Report?

None

III. Management Discussion and Analysis**1. Business review for the reporting period**

In 2019, the company faced the headwinds in the international trade and sales decline in the automobile industry. The Company adhered to the business guideline of "strive to build a well-managed, market-oriented and growing international company positioned in broad transportation sector; continuously boost transformation of business, capital and management underpinned by innovation and global talent pool". The Company actively integrated the operations of various business segments, and vigorously explored the domestic market. In 2019, the Company achieved total revenue of 10.788 billion yuan and net profit of 769.319 million yuan attributable to the parent. In 2019, the Company made achievements in the following aspects:

(1) Market development steadily advanced, and new orders acquired

The company continued to develop Japanese OEMs market. With the time and efforts put by its local branch, a good mutual trust with Toyota has been established and the sales in the Japanese market keep increasing. The Company successfully entered Mercedes-Benz's supply system and obtained new orders. Meanwhile, the Company closely watched the developments in cleaning energy sector and maintained partnership with key market participants. The production capacity of the motorcycle aluminum alloy wheel factory in India has grown steadily and maintained a leading position in product share, largely ensuring the simultaneous growth of its market orders.

At the same time, it actively approached new customers in Europe, Southeast Asia, and Chinese market. Europe ASKOLL was on track of normal supply, and the first ETERGO product has been trial-produced. Orders from Taiwan Jinhuaixin and Vietnam KIAA have all begun to fulfil. Dacromet's coating business has achieved stable production, the Jiaying production base has been put into operation smoothly, and market feasibility study in China Northeastern region has also made progress. The market development of lightweight magnesium alloy business focused on large-tonnage products, such as cross car brackets, front-end module brackets, etc. The expansion plan of the Canadian factory progressing smoothly. Efforts were made to acquire new customers targeting Chinese joint ventures and local automobile brands. The Company has started to supply Beijing Benz, NIO, and SAIC Volkswagen and became a supplier of magnesium alloy seat brackets for Faurecia.

The acquisition of new customers and new projects in the die stamping business segment has achieved remarkable results. As the core tier-2 supplier of Tesla's stamping parts, the Company has broken through multiple technical bottlenecks for the first Model 3 seat stamping part project and achieved mass production on schedule, meeting the requirement of Model 3's launch. The Company has become a designated supplier for TESLA-MOEDL 3/Y project and Faurecia (India)'s mold business. At the same time, the supply of die stamping parts has been extended to automobile factories. The Company has been included in the supplier list of some OEMs. The quotation and evaluation of new projects and new products have also started.

(2) Professional technology guided process optimization, engineering technology standardized project management

"Innovation-driven" and "intelligent manufacturing" are the top priorities for the Company to forge its core competitiveness. The construction and commissioning of a few high-tech and modern model plants such as the "Smart Factory" for aluminum alloy wheels has helped the Company to accelerate corporate transformation and achieve high-quality sustainable development. The PLM project platform was officially launched and optimized. The digital platform for R&D, technology and manufacturing has been improved; The technological development focused on

mold temperature control, two-color coating process, transparent powder redrawing and cancellation of color paint rework, aging resistant powder project, and new anti-fouling coatings; Forging spinning technology was improved through 3D-Deform and systemic training of other software, and 3D printing mold projects, resulting in 20% increase of casting production per shift and 80% longer mold life. The smooth commissioning of the production base in Jiaxing cemented the Company's industry leadership in the Dacromet coating field, promoted the application of magnesium alloy component coating, and enabled the Company's magnesium alloy and Dacromet coating businesses to develop synergistically. The integration of technology helped magnesium alloy segment to obtain orders from defense and 5G commercial customers.

The Company invested 367 million yuan in R&D in 2019, registered 157 new patents, and won the third prize of the 2019 China Transportation Association Science and Technology Progress Award, the first prize of the 2019 Zhejiang Machinery Industry Science and Technology Award, the third prize of the Zhejiang Science and Technology Award Progress Award, the honor of Zhejiang Province Invisible Champion Cultivation Enterprise, Zhejiang Province Enterprise Standard "Leader", etc. Sci-tech innovation achievements continued to emerge and take the lead in the domestic market.

(3) Optimize management to reduce operating costs, strengthen production management to improve quality and efficiency

The Company has gradually accelerated the upgrading of production, taking intelligent manufacturing as a powerful engine for future growth. The Smart Factory for motorcycle wheels was awarded the title of "Leader" in Zhejiang Enterprise Standards, which optimized the Company's quality control and enhanced influence in the industry. Each business segment took "lean production" as the management core, analyzed key indicators improve production operations and quality, introduced a mold intelligent manufacturing system, and established information and data sharing mechanism; An evaluation system was established to ensure that factories independently carry out standardized process improvement activities, reduce production costs and improve production efficiency and product completion rate, ultimately becoming a benchmark enterprise that excels at quality control in the industry.

(4) Actively respond to trade frictions with multiple measures

In recent years, US, EU, Australia, India, Argentina, the Eurasian Union, etc., have imposed tariffs and anti-dumping duties on Chinese aluminum wheels, putting potential pressure on our operations. Among them, US is an important export market for the Company's automotive aluminum alloy wheels. Chinese-US trade frictions may cause automakers to reduce their future wheel purchases and reduce the Company's future profitability. The Company is taking active and effective measures to mitigate this risk: ① Actively dialogue with OEMs, strengthen communication and negotiation of new order prices, enhance customer service levels, ensure product quality, and surpass customer expectations. ② Optimize the market structure, open up the European and Japanese markets, and step up efforts to develop Chinese market, especially new energy customers. ③ Apply lean management and special measures to reduce costs and increase efficiency, reduce losses during production and operation, advocate the construction of smart factories, and enhance the profitability of major products.

2. Significant changes in main business in the reporting period

☐Applicable ☒Not applicable

3. Products contributing to over 10% of the Company's main business revenue or profit

☒Applicable ☐Not applicable

Unit: Million Yuan unless otherwise stated

Product	Revenue	Profit	Gross profit margin (%)	Revenue: +/-% over last year	Profit: +/-% over last year	Gross profit margin +/-% over last year
Automotive aluminum alloy wheels	4,398	833	18.95%	-1.14%	-2.98%	-0.36%
Motorcycle aluminum alloy wheels	1,791	320	17.86%	-21.19%	-24.21%	-0.71%
Magnesium alloy die casting products	2,843	529	18.62%	4.04%	-8.67%	-2.59%
Coating	279	96	34.37%	-18.74%	-35.33%	-8.82%
Metal casting parts	310	97	31.43%	19.20%	28.23%	2.21%
Stamping parts	772	196	25.39%	55.11%	56.84%	0.28%
Total	10,394	2,072	19.94%	-1.53%	-6.24%	-1.00%

4. Seasonal or cyclical characteristics in operating performance that need special attention

☐Applicable ☒Not applicable

5. Significant changes in revenues, costs and net profit attributable to common shareholders or their composition comparing to prior reporting period

☐Applicable ☒Not applicable

6. Listing suspension or termination

☐Applicable ☒Not applicable

7. Matters related to financial statements

(1) Explanation on changes in accounting policy, accounting estimations and accounting methods comparing to prior year financial statement

√Applicable □Not applicable

1. New financial instrument standards

(1) The newly revised standards for the recognition and measurement of financial instruments stipulate that the "business model" and "contractual cash flow characteristics" of the financial assets held by the enterprise shall be used as the basis for determining its classification, which shall include three types: financial assets measured at amortized cost, financial assets measured at fair value with changes included in other comprehensive income, and financial assets measured at fair value with changes included in current profits and losses. The new standard reduces the types of financial assets and improves the objectiveness of classification and consistency of accounting treatment.

(2) The accounting treatment for impairment of financial assets was revised from the "incurred loss method" to the "expected loss method". It is required to consider the expected credit loss of financial assets in the future, so that the provision for impairment of financial assets can be made in a timelier fashion at full amount, which is convenient for preventing and controlling credit risks of financial assets.

(3) Adjust the accounting treatment of non-trading equity instrument investment, allowing companies to designate non-trading equity instrument investment as the accounting treatment that is measured at fair value and whose changes are included in other comprehensive income, but the designation is irrevocable, and at the time of disposal, the accumulated fair value changes originally included in other comprehensive income shall not be carried forward and included in the current profit and loss.

(4) Further clarify the judgment principles and accounting treatment of financial asset transfer.

(5) Hedging accounting standards put more emphasis on closely connecting hedging accounting to corporate risk management activities for better reflection.

(6) The accounting treatment of embedded derivatives has been simplified.

(7) In hedging accounting, the treatment of time value of options and the fair value option of credit risk exposure are provided.

2. New financial report format

According to the *Notice of the Ministry of Finance on Revised Format of General Enterprise Financial Statements for 2019 (Accounting 2019 No. 6)*, the Company will adjust the presentation of related items in the financial statements. The details are as follows:

(1) "Notes receivable and accounts receivable" in the balance sheet is divided into: "Notes receivable" and "Accounts receivable"; "Notes payable and accounts payable" is divided into "Notes Payable" and "Accounts Payable".

(2) "Other equity instrument investment" was added to the balance sheet to reflect the ending book value of the non-tradable equity instrument investment designated by the company at fair value and whose changes are included in other comprehensive income on the balance sheet date.

(3) The "credit impairment loss" is newly added to the income statement, reflecting the credit loss recognized by the credit impairment provision of various financial instruments made by the enterprise in accordance with the *Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments (Accounting 2017 No. 7)*.

(4) Adjust the income statement "minus: asset impairment loss" to "plus: asset impairment loss (losses are listed with "-").

(2) Explanation on retrospective restatement due to significant accounting error correction in the reporting period

☐Applicable ☒Not applicable

During the reporting period, the Company had no significant accounting error corrections requiring retrospective restatement.

(3) Explanation on changes of consolidation scope comparing to prior year's financial statement

☒Applicable ☐Not applicable

During the reporting period, Ningbo Aoweier, a subsidiary of the Company, acquired 99.9% equity of Suzhou Yucuiyuan Trading Enterprise (General Partnership) for RMB 399.400 million in cash (the fair value was determined to be RMB 411.779 million). The equity transfer was registered with the Administration of Industry and Commerce on January 31, 2019. Suzhou Yucuiyuan Trading Enterprise (General Partnership) was added to the consolidated scope of the company's statements.

Zhejiang Wanfeng Auto Wheel Co., Ltd

Legal Representative: Chen Bin

June 24, 2020