中国重汽
SINOTRUK

Sinotruk (Hong Kong) Limited
中國重汽（香港）有限公司

(Incorporated in Hong Kong with limited liability)

Stock Code : 3808

ANNUAL REPORT 2018


中国重汽
中国重汽
SINOTRUK
安全 经济 高效
HOWO
豪沃T7H

CONTENTS

FINANCIAL FIGURES

	2018	2017	Increase/(Decrease)	
				%
Operating results (RMB million)				
Revenue	**61,785**	55,458	6,327	11.4
Gross profit	**11,175**	10,028	1,147	11.4
Operating profit	**5,642**	4,272	1,370	32.1
Profit attributable to owners of the Company	**4,345**	3,023	1,322	43.7
Profitability and Liquidity				
Gross profit ratio (%)	**18.1**	18.1	—	—
Operating profit ratio (%)	**9.1**	7.7	1.4	18.2
Net profit ratio (%)	**7.6**	6.0	1.6	26.7
Current ratio (time)	**1.3**	1.3	—	—
Trade receivable turnover (days) (note)	**31.6**	44.8	(13.2)	(29.5)
Trade payable turnover (days)	**159.7**	156.0	3.7	2.4
Sales volume (units)				
HDTs				
— Domestic	**131,748**	125,627	6,121	4.9
— Export (including affiliated export)	**36,300**	30,616	5,684	18.6
Total	**168,048**	156,243	11,805	7.6
LDTs	**134,046**	107,660	26,386	24.5
Trucks sold under auto financing services	**27,748**	22,569	5,179	22.9
Per share data				
Earnings per share - basic (RMB)	**1.57**	1.09	0.48	44.0
Dividend per share (HKD)	**0.64**	0.70	(0.06)	(8.6)

Note: The comparative figure of trade receivables turnover is recalculated to conform the current period classification and measurement after the adoption of new accounting standards.

DEFINITIONS

In this annual report, the following expressions shall have the following meanings unless the context indicates otherwise:

"AGM"	the annual general meeting of the Company or any adjournment thereof
"Articles"	the articles of association of the Company, as amended, supplemented, modified or otherwise adopted from time to time
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"CAAM"	China Association of Automobile Manufacturers
"China" or "PRC"	the People's Republic of China, and for the purpose of this annual report, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"CNHTC" or "Parent Company"	中國重型汽車集團有限公司(China National Heavy Duty Truck Group Company Limited), a state-owned enterprise organized under the laws of the PRC with limited liability, being the ultimate holding company of the Company and the controlling shareholder (as defined in the Listing Rules) of the Company
"CNHTC Group"	CNHTC and its subsidiaries other than the Group
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"Company"or "Sinotruk"	Sinotruk (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, and the shares of which are listed on the Main Board of the Stock Exchange
"Director(s)"	the director(s) of the Company
"ED(s)"	the executive Director(s)
"Euro"	the lawful currency of the European Union
"Executive Committee"	the executive committee of the Company
"FPFPS"	Ferdinand Porsche Familien-Privatstiftung, an Austrian private foundation *(Privatstifung)* (trust), being the beneficiary owner of 25% of the entired issued share capital of the Company plus 1 Share
"FPFPS Group"	FPFPS and its subsidiaries including Volkswagen AG and MAN SE
"Group"	the Company and its subsidiaries
"HDT(s)"	heavy duty truck(s) and medium-heavy duty truck(s)
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

"HOWO Auto Finance Company"	山東豪沃汽車金融有限公司 (ShanDong HOWO Auto Finance Co., Ltd.), a company established under the laws of the PRC with limited liability, being a non-wholly owned subsidiary of the Company
"INED(s)"	the independent non-executive Director(s)
"Ji'nan Power Company"	中國重汽集團濟南動力有限公司 (Sinotruk Ji'nan Power Co., Ltd.), a company established under the laws of the PRC with limited liability, being a wholly owned subsidiary of the Company
"Ji'nan Truck Company"	中國重汽集團濟南卡車股份有限公司 (Sinotruk Ji'nan Truck Co., Ltd.), a joint stock company incorporated under the laws of the PRC with limited liability, being a non-wholly owned subsidiary of the Company and the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000951)
"LDT(s)"	light duty truck(s)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MAN Group"	MAN SE and its subsidiaries
"MAN SE"	MAN SE, a company incorporated under the laws of Germany with limited liiability, being a non-wholly owned subsidiary of FPFPS and the shares of which are listed on the German Stock Exchange in Germany (stock code: ISIN DE0005937007, WKN 593700 and symbol MAN)
"NED(s)"	the non-executive Director(s)
"PBOC"	The Peoples' Bank of China
"Period"	the year ended 31 December 2018
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Stock Exchange"	Shanghai Stock Exchange in the PRC
"Share(s)"	the ordinary share(s) in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s) from time to time

DEFINITIONS

"Shenzhen Stock Exchange"	Shenzhen Stock Exchange in the PRC
"Sinotruk Finance Company"	中國重汽財務有限公司 (Sinotruk Finance Co., Ltd.), a company incorporated under the laws of the PRC with limited liability, being a non-wholly owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy and Investment Committee"	the strategy and investment committee of the Company
"Subsidiary"	a subsidiary for the time being of the Company within the meaning of the Companies Ordinance whether incorporated in Hong Kong or elsewhere and "Subsidiaries" shall be construed accordingly
"USD"	United States dollars, the lawful currency of the United States of America
"Volkswagen AG"	Volkswagen AG, a company incorporated under the laws of Germany with limited liability, being a non-wholly owned subsidiary of FPFPS and an intermediate holding company of MAN SE and the shares of which are listed on German Stock Exchange (stock code: ISIN DE0007664005, WKN 766400 and symbol VOW)
"Volkswagen Group"	Volkswagen AG and its subsidiaries, including MAN Group
"Weichai Power"	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a company incorporated under the laws of the PRC with limited liability which shares are listed on the Main Board of the Stock Exchange (stock code: 2338) and on the Shenzhen Stock Exchange (stock code: 000338)
"YoY"	year-over-year
"%"	per cent

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Cai Dong
(Chairman and President)
Mr. Wang Shanpo
Mr. Liu Wei
Mr. Liu Peimin
Mr. Dai Lixin
Mr. Sun Chenglong
Mr. Jörg Mommertz

NON-EXECUTIVE DIRECTORS:

Mr. Andreas Hermann Renschler
Mr. Joachim Gerhard Drees
Mr. Jiang Kui
Ms. Annette Danielski

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Lin Zhijun
Mr. Chen Zheng
Mr. Yang Weicheng
Dr. Wang Dengfeng
Mr. Zhao Hang
Mr. Liang Qing

EXECUTIVE COMMITTEE

Mr. Cai Dong *(Chairman)*
Mr. Wang Shanpo
Mr. Liu Wei
Mr. Liu Peimin
Mr. Dai Lixin
Mr. Sun Chenglong
Mr. Jörg Mommertz

STRATEGY AND INVESTMENT COMMITTEE

Mr. Cai Dong *(Chairman)*
Mr. Wang Shanpo
Mr. Sun Chenglong
Mr. Jörg Mommertz
Mr. Zhao Hang

REMUNERATION COMMITTEE

Mr. Chen Zheng *(Chairman)*
Dr. Lin Zhijun
Mr. Yang Weicheng
Mr. Liang Qing
Mr. Liu Wei

AUDIT COMMITTEE

Dr. Lin Zhijun *(Chairman)*
Mr. Chen Zheng
Dr. Wang Dengfeng

HEAD QUARTERS

Sinotruk Tower
No. 777 Hua'ao Road
Innovation Zone
Ji'nan City
Shandong Province
PRC
Postal code: 250101

REGISTERED OFFICE IN HONG KONG

Units 2102-2103
China Merchants Tower
Shun Tak Centre, 168-200
Connaught Road Central
Hong Kong

COMPANY SECRETARY

Mr. Kwok Ka Yiu

AUTHORIZED REPRESENTATIVES

Mr. Dai Lixin
Mr. Kwok Ka Yiu

BOARD SECRETARY

Mr. Dai Lixin

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Bank of China Limited
Agricultural Bank of China Limited
China Construction Bank Limited

LEGAL ADVISERS

HONG KONG

Sidley Austin

PRC

DeHeng Law Offices

AUDITOR

PricewaterhouseCoopers

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

COMPANY WEBSITE

www.sinotruk.com

SECURITIES CODE

Equity: 3808.hk

INVESTOR RELATIONS

Investment Management and Securities Department
PRC: Tel (86) 531 5806 2545
Fax (86) 531 5806 2545
Hong Kong: Tel (852) 3102 3808
Fax (852) 3102 3812
Email: securities@sinotrukhk.com

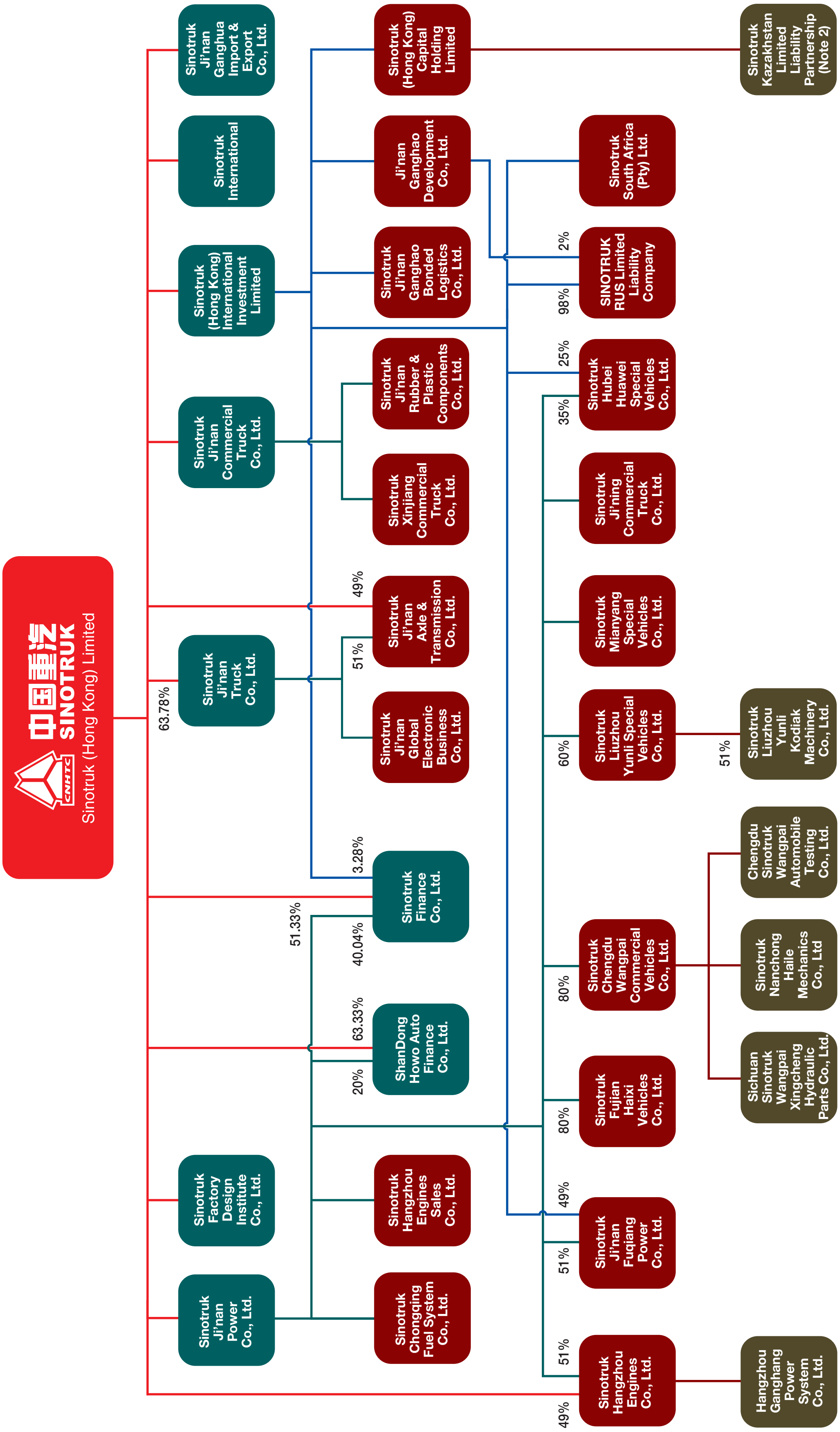
PUBLIC RELATIONS CONSULTANT

Christensen China Limited
Tel: (852) 2117 0861
Email: sinotruk@christensenir.com

ORGANISATION STRUCTURE

Organisation Structure

As at 31 December 2018



Notes : 1) All of the above subsidiaries are direct wholly-owned subsidiaries of their respective immediate holding companies unless otherwise stated.

2) It is a legal commercial organization in the form of a limited liability partnership.

THE GROUP

BUSINESS

The Group is one of the leading trucks manufacturers in the PRC which specialises in the research, development and manufacture of HDTs, LDTs and related key parts and components. HDTs are the key products of the Group. Through our diversified product portfolio, we serve a wide range of customers from different major industries including infrastructure, construction, container transportation, logistics, mining, steel, chemical, etc.

The Group mainly manufactures trucks and also produces key parts and components such as engines, cabins, axles, steel frames, gearboxes, etc. The Group is a truck manufacturer which has its own research and development and production capability in trucks as well as the complete production chain. The Group sells truck engines and engines for use in industrial and construction machineries to independent third parties in addition to our own use. Our products are not only sold domestically but also exported to other countries and regions in the world.

OPERATIONS

The Group's businesses are classified into four operating segments according to the nature of products and services:

(I) HEAVY DUTY TRUCKS SEGMENT

Sales of HDTs contribute the largest portion of the Group's revenue. Its major products series include SITRAK, HOWO-T7H, HOWO-A7, HOWO, Haoyun, Steyr and Hohan, each of which is further divided into various sub-series to target different sectors of the Group's product market. The key production bases are located at Ji'nan, PRC. In addition, the Group engages in truck refitting and manufactures specialty vehicles.

(II) LIGHT DUTY TRUCKS SEGMENT

The Group's LDT products mainly include HOWO, Huanghe, Fuluo, Haoman and Wangpai "7 series" products, which production bases are located at Ji'nan, Chengdu and Fujian, the PRC.

(III) ENGINES SEGMENT

The Group is one of the few truck manufacturers in PRC that has the ability to produce HDT and LDT engines. Although most of the engines produced by the Group are for internal usage, the Group also sells industrial and construction machinery engines to independent third parties. In addition, the Group produces other HDT key parts and components, such as gearboxes and various types of casting and forging. The engines production bases are located at Ji'nan and Hangzhou, the PRC.

(IV) FINANCE SEGMENT

The finance segment of the Group provides financial services to those parties related to the production and sales of the Group's products and to the CNHTC Group. Financial services include deposits taking, borrowings, commercial notes and bank bills discounting, auto financing services and supply chain financing services. In addition to HOWO Auto Finance Company, it also cooperates with authorized financial institutions to provide auto financing services. It builds up an auto financing services network. At present, it has already set up 22 regional offices and extended its financing services to over 30 provinces, covering most areas in the PRC.

SHAREHOLDER INFORMATION

Financial Calender 2019	
Announce 2018 annual results	27 March
2019 AGM	26 June
Ex-dividend date for 2018 final dividends	2 July
2018 final dividends entitlement date	5 July
Despatch dividend warrants	On or about 26 July
Announce 2019 interim results	August

2018 Dividends	
Proposed 2018 final dividend	HKD0.64 per Share
Dividend payout ratio (Note)	34.8%

Share Information	
Stock code	3808
Listing as at 31 December 2018	
– Number of issued Shares	2,760,993,339
– Market capitalisation	RMB28,546 million
Board lot size	500 Shares

For Shareholders to attend and vote at 2019 AGM	
Latest time to lodge transfer documents for registration with Sinotruk's registrar	At 4:30pm on 20 June 2019
Closure of Sinotruk's register of members	21 to 26 June 2019 (both dates inclusive)
Record date	26 June 2019

For Shareholders to be entitled to 2018 final dividend	
Latest time to lodge transfer documents for registration with Sinotruk's registrar	At 4:30pm on 3 July 2019
Closure of Sinotruk's register of members	4 to 5 July 2019 (both dates inclusive)
Record date	5 July 2019

Sinotruk's Registrar - Computershare Hong Kong Investor Services Limited

For corporate communications:

By post:	17M Floor, Hopewell Centre 183 Queen's Road East Wan Chai, Hong Kong
By email:	securities@sintorukhk.com

For transfer of shares:

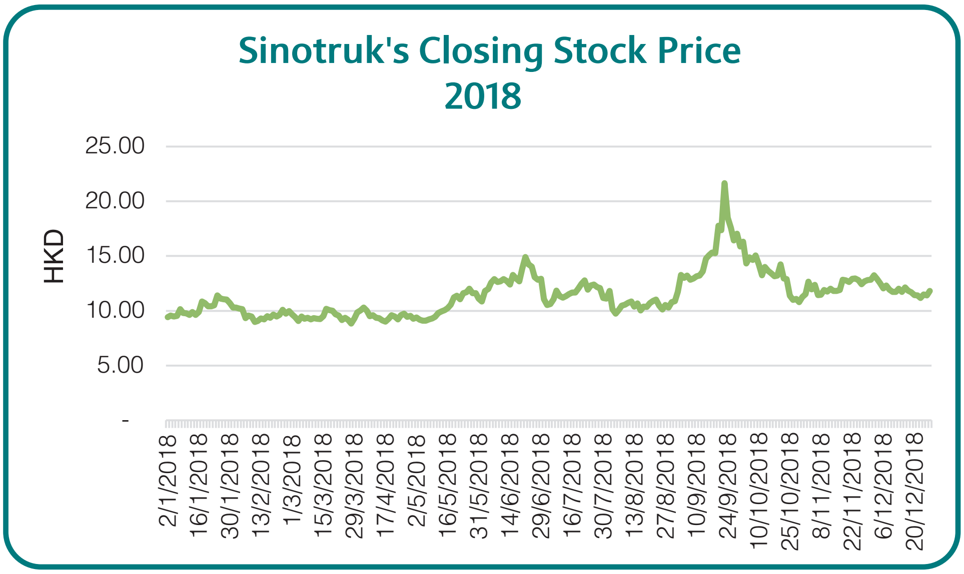
Address:	Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai, Hong Kong
Tel:	(852) 2862 8555

Note: Being calculated by dividends relating the Period in RMB equivalent divided by profit attributable to owners of the Company for the Period.

SHAREHOLDER INFORMATION

Share Prices During the Period

Maximum price	HKD23.15
Minimum price	HKD9.14
Average closing price	HKD11.43



Shareholding Distribution as at 31 December 2018 (based on Sinotruk's Register of Members)

Size of Shareholding			No. of Shareholders	% of Shareholders	No. of Shares held	% of no. of Shares issued
1	–	500	7,795	77.6%	3,866,560	0.1%
501	–	1,000	1,453	14.5%	1,452,501	0.1%
1,001	–	2,000	652	6.5%	1,035,001	0.1%
2,001	–	10,000	117	1.2%	479,500	0.0%
10,001	–	100,000	21	0.2%	602,000	0.0%
100,001	–	500,000	2	0.0%	257,500	0.0%
Above 500,000			4	0.0%	2,753,300,277	99.7%
			10,044	100.0%	2,760,993,339	100.0%

Details about Sinotruk's major Shareholders are disclosed in the Corporate Governance Report contained in this annual report.

CHAIRMAN'S STATEMENT

CAI DONG

CHAIRMAN

On behalf of the Board, I am pleased to present a review of the Group's operating results for the year ended 31 December 2018 and prospects.

TRUCKS MARKET

China's economy in 2018 remained stable with the growth of 2018 GDP at 6.6% YoY. Due to stricter vehicle compliance requirements, the increase in new vehicle purchases, the commencement of large-scale infrastructure projects, the escalation of domestic consumption, the vigorous development of the logistics industry, etc., China's heavy duty trucks market continued to maintain a small growth trend, and the total market demand kept at a high level. According to statistics from CAAM, the annual sales volume of heavy duty trucks in 2018 increased by 2.78% YoY to approximately 1,147,900 units, which was another historic high for China's domestic heavy duty truck market. Benefiting from the advancement of urbanization process and the growth of suburban logistics and freight demand, the whole industry achieved sales of light duty trucks of approximately 1,895,500 units, an increase of 10.24% YoY.

THE GROUP'S OPERATIONS

During the Period, the Group leveraged the steady growth of China's heavy duty trucks industry and achieved record results. The Group's total sales volume of trucks in 2018 increased 14.5% YoY to 302,094 units, of which the sales volume of HDTs increased by 7.6% YoY to 168,048 units and the sales volume of LDTs increased by 24.5% YoY to 134,046 units.

CHAIRMAN'S STATEMENT

During the Period, the Group recorded revenue of RMB 61,785 million, representing an increase of 11.4% YoY. Profit attributable to owners of the Company was RMB 4,345 million, representing an increase of 43.7% YoY, making us one of the best in the domestic truck industry in terms of operational performance and profitability.

During the Period, the Group's HDT segment continued to develop steadily while it further optimized product portfolio. The Group's engineering vehicles maintained a leading position in the industry, and natural gas HDTs were widely recognized in the market, helping to achieve a stable increase in market share. In addition, SITRAK series of trucks excelled in the high-end segment, such as long-distance road vehicles and specialty vehicles and its premium brand image was broadly acknowledged by the market.

The Group's LDT segment also achieved progress and recorded rapid development during the Period. The Group's LDT segment accurately locates market segments, focuses on maximizing customer value, adheres to differentiation strategies, and implements effective marketing across the value chain. The segment's percentage growth in sales volume exceeded the industry average, making it a powerful force in the LDTs market.

The Group's export continued to maintain its leading position in the industry in the PRC. The Group took advantage of the opportunities created by the "Belt and Road" Initiative and collaborated with countries along the route in various forms for the development of international trade. The total annual export volume of HDTs (including affiliated exports) in 2018 increased by 18.6% YoY to 36,300 units, which was a record high.

PROSPECTS

In 2019, the world economic recovery is expected to slow down. China's foreign trade is facing a more complicated and grim situation, and the domestic economy is facing downward pressure. The commercial vehicle market is expected to see volatility at a high level in 2019.

Looking forward, despite considerable uncertainty and market pressure, Sinotruk have established unique competitive advantages in products, technology, quality, brand, network and services aspects. We put customer satisfaction as our core value, being the domestic leader as well as a world-class player across the full range of commercial vehicles as our strategic vision. We also adhere to open cooperation and go global to enhance our competitiveness in the international markets. At the same time, we will further enhance market response capabilities and achieve regional and market segment breakthroughs. While continuing to grow our HDTs business, we will develop a full range of medium and high-end light duty trucks, optimize and upgrade the procurement system, continue to explore the international markets, implement digital transformation projects, and achieve sustainable and healthy development of the Group.

CHAIRMAN'S STATEMENT

DIVIDENDS

The Board proposed a final dividend for the financial year ended 31 December 2018 of HKD0.64 per Share.

APPRECIATION

Mr. Wang Bozhi resigned as chairman of the Board due to job re-assignment. On behalf of the Board, I would like to express my sincere thanks and best regards to Mr. Wang for his outstanding contribution during his tenure.

On behalf of the Board, I would also like to express our gratitude to all of our Shareholders for your trust and support and thank the management team and all of our employees for their contribution and hard work over the past year.

Chairman
Cai Dong

27 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

TRUCKS MARKET

In 2018, the domestic heavy duty truck industry grew slightly and the total sales volume hit a new record, mainly due to the combined impact of stable macroeconomic growth, the replacement of high polluting vehicles, and the launch of various infrastructure projects. During 2018, demand composition for various heavy duty trucks changed considerably. The sales volume of engineering products such as mixer trucks and tipper trucks saw tremendous growth in the first half of the year while demand declined significantly in the third quarter of the year. In contrast, due to regression of policy dividend, demand for tractor trucks declined significantly in the first half of the year compared with the same period last year. On the other hand, the demand in the second half of the year was stablised and increased due to the need of storage and transportation of coal ready for the use in winter, natural gas and e-commerce logistics. Demand for specialty vehicles maintained relatively rapid growth while demand for freight trucks was stable throughout the year. Sales of LDTs saw steady growth throughout the year as a result of urbanization and increasing demand for suburban logistics freight. Further market overview information of trucks market, please refer to the section of "Trucks Market" in the Chairman's Statement.

LOANS MARKET

In 2018, the Chinese government continued to implement its prudent and neutral monetary policy. During the Period, the base interest rates for RMB denominated loan with a term of not more one year and RMB denominated loan with a term of over one year but not more than five years maintained at 4.35% and 4.75%, respectively, which are the same as last year.

REVIEW OF OPERATIONS

HEAVY DUTY TRUCKS SEGMENT

During the Period, the sales volume of the Group's HDTs was 168,048 units, representing an increase of 7.6% YoY. Revenue from the HDT segment was RMB48,795 million, representing an increase of 7.1% YoY. The segment operating profit margin was 4.6%, representing an increase of 1.3 percentage points YoY, mainly due to the lower fixed production costs per unit as a result of the significant increase in scale of sales.

DOMESTIC BUSINESS

During the Period, the Group sold 131,748 HDTs in the PRC, representing an increase of 4.9% YoY.

The Group took advantage of a recovery in the construction vehicle market to boost the sales of engineering trucks as a result of the launch of various infrastructure projects in different areas. Sales of mixer trucks and tipper trucks increased by 54.2% and 31.8% YoY, respectively. The Group's affordable high-end Hohan (豪瀚) N-series truck which was launched in August last year was well accepted by the market and the sales orders increased rapidly in 2018. SITRAK series trucks has performed well in high-end segment markets such as long-distance road vehicles and specialty vehicles, and the brand's high-end image has been widely recognised by the market.

As at 31 December 2018, the Group had a total of 969 HDT dealerships (including 153 4S centers and 97 SINOTRUK branded dealerships), 1,340 service centers providing high quality after-sales service, and 151 refitting companies to provide truck refitting services to HDTs in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

International Business

During the Period, the Group's export volume of HDTs (including affiliated exports) was 36,300 units, representing an increase of 18.6% YoY. Export revenue (including affiliated exports) was RMB10,237 million, representing an increase of 17.2% YoY.

During the Period, the Group adhered to China's "Belt and Road" initiative and set out on the development of the international market. For those markets with relatively complete sales networks, the Group managed and optimised these existing sales networks, improved the efficiency of such networks through extensive marketing of its classic truck models. Meanwhile, the Group also enhanced its relationships with large customers and explored in-depth cooperation methods, and built up solid basis of the cooperation. The Group also paid close attention to new market demands, timely enriched product lines, and expanded sales and market share. In order to accelerate the localisation process, the production lines of the Nigerian joint venture plant of the Group's joint venture – Sinotruk (Hong Kong) Hongye Co., Ltd. had been upgraded to further meet the demand for trucks in Nigeria and surrounding markets.

During the Period, the Group achieved a historic breakthrough in exports. According to internal non-GAAP measures, the Group has held a market-leading position in the export of HDTs in China for 14 consecutive years.

As at 31 December 2018, the Group had 110 primary distributor sales centers in over 60 countries and regions. Through cooperation with overseas distributors, the Group has also established 231 service outlets and 205 spare parts and accessory points.

LIGHT DUTY TRUCKS SEGMENT

During the Period, the Group's LDTs sales volume increased by 24.5% YoY to 134,046 units, exceeding the industry average growth of 10.24%. The Group's LDTs business has grown into an important force in the industry. During the Period, revenue from the LDTs segment increased to RMB11,445 million, representing an increase of 28.2% YoY. The segment operating profit margin was 3.3%, representing an increase of 0.7 percentage points. The increase was due to the significant increase in sales volume which diluted the fixed production cost per unit.

The Group's Ji'nan LDT division continued to promote the distribution of the entire value chain of the distribution network to improve the operational quality, focus on key market segments, adjust market development plans in a targeted manner, and implement accurate marketing. It fully implemented standardisation management, built up marketing team management competitiveness, and achieved a substantial increase in product sales.

Sinotruk Chengdu Wangpai Commercial Vehicles Co., Ltd. ("**Chengdu Wangpai Company**") comprehensively improved production and operation standards and accelerated the pace of its transformation and upgrade. Adhering to a customer-focused strategy, Chengdu Wangpai Company continued to optimise its product mix and promote innovative management principles in order to enhance the comprehensive strength. With high-quality products and strong marketing teams, Chengdu Wangpai Company expanded its domestic and international markets, realised management upgrade, quality upgrade and efficiency upgrade, and achieved a new record-high sales volume throughout the year.

Sinotruk Fujian Haixi Vehicles Co., Ltd. strengthened its market development efforts, continuously improved its competitiveness and further enhanced its brand awareness and market share.

As at 31 December 2018, the Group had a total of 1,969 LDT dealerships (including 52 4S centers and 372 SINOTRUK branded dealerships), 2,128 service centers that provide high quality after-sales service, and 34 refitting companies to provide truck refitting services to LDTs in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

ENGINES SEGMENT

During the Period, the sales volume of the engine segment decreased by 4.7% YoY to 175,889 units. Segment revenue decreased by 4.0% YoY to RMB14,111 million. External sales of engines accounted for 9.3% of the segment revenue, representing an increase of 1.8 percentage points YoY. The segment operating profit margin accounted for 15.7%, representing a decrease of 0.3 percentage points YoY. The decrease was due to the decrease in volume sales of engines which reduced benefits from economic scale.

The Group is committed to the continual research and development of new engine technologies, the benchmarking of its engine design in compliance with international standards, strengthening quality controls, expanding the application of MAN engines and to provide customers with high-tech products that are reliable and fuel-efficient. The Group continued to gain customer recognition for its advanced and high-quality MAN engines. In addition to supplying engines for the Group's own production, the Group sold engines to other HDTs, bus and engineering machinery manufacturers.

RESEARCH AND DEVELOPMENT

The Group remains committed to its technology-focused strategy. With the launch of a national heavy duty truck engineering technology research center, the Group further enhanced its capacity for product research and development, inspection, and testing. The Group takes full advantage of its research platforms and increases investment in the research and development of new technology to strengthen its technological development and innovation capacity. By strengthening its cooperation with the MAN Group and other reputable international enterprises, the Group develops high quality and high-tech standard engines, parts and components as well as whole truck designs to further grow its industrial competitive edge.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the Group's research and development team focused on a variety of projects, including: the "Development and Application of Euro-VI Heavy Duty Diesel Engines" (「歐VI重型柴油機開發及應用」) supported by the National Key Technology R&D Program, "Emergency Road Rescue Technology Research and Application Specifications" (「道路應急搶通關鍵技術研究與應用規範」), "Key Technologies and System Integration of Diesel Vehicle Emission Control Meeting National VI Standards" (「滿足國VI標準的柴油車排放控制關鍵技術及系統集成」) and "Development and Research of Super Energy-saving Heavy Duty Truck Hybrid Power Systems" (「超級節能型重型載貨汽車混合動力系統開發研究」) (2017YFB0103500, 2017-2020) supported by the National Key Research and Development Program, and "Hybrid Power System Optimisation Method and Electromechanical Coupling High Frequency Coordinated Control" (「混合動力系統優選方法及機電耦合高頻協調控制」) (U1764257, 2018-2021) supported by the National Natural Science Foundation, etc. During the Period, the Group's technology center completed a total of 56 research and development projects related to trucks, key parts and components.

FINANCE SEGMENT

During the Period, the Group's finance segment revenue was RMB1,415 million, representing an increase of 25.0% YoY, and segment external revenue was RMB988 million, representing an increase of 47.7% YoY. The segment operating profit margin was 60.1%, representing an increase of 11.9 percentage points YoY. The increase was mainly due to the vigorous development of auto financing and supply chain financing which increased operation scale and return of capital, and the further optimisation of sources of funding.

The Group continued to develop its innovative business model by taking full advantage of national policies and utilising its auto financing services platform. The Group promoted auto financing services to meet demand for truck financing and promote the Group's truck sales. During the Period, the Group sold 27,748 trucks with financing, representing an increase of 22.9% YoY. The Group also actively expanded its profit drivers by provision for supply chain financing to those premier suppliers so as to enhance its profitability.

As at 31 December 2018, the Group had 22 regional offices and extended its financing services business coverage to over 30 provinces, covering most parts of China, and further improved its auto financing services.

PRINCIPAL RISKS AND SOLUTIONS

QUALITY RISKS:

During the products and services life cycle, the quality of the products and services designed, produced, sold and provided by the Group shall face uncertainty which may bring negative effects and impact on the competitiveness and reputation of the Group.

Mitigation Measures: in 2018, the Group began to operate the IATF16949 Quality Control System (automotive industry) and conducted overall planning of the quality management system in accordance with these relevant standards, making it suitable for the whole process of product design and development, manufacturing, sales and after-sales service of the Group. At the same time, the quality control department prepared "Related Parties and Risk Control Process《相關方及風險管理程序》" in combination with the requirements of the quality management system standards for the identification and control activities of technical risks and quality risks in the Group's quality system. In addition, with the launch of such campaigns as "Quality Month" and "Follow up of Quality Issues policy", each production unit combined quality monitoring with risk management, added key quality indicators on the major risk indicators which were determined at the beginning of the year, monitored the relevant indicators in a dynamic manner and applied the trends of the changes of these indicators in quality control management decisions. Regarding to after-sales service management, the Group continued to promote "Non-stop Service Socialisation" ("不停車服務社會化") and "Full Life-cycle Service" ("全生命週期服務"), continuously improving user satisfaction.

FOREIGN EXCHANGE RISKS:

The Group's international trades are currently transacted in USD or Euro. If there are any significant exchange rate fluctuations of RMB against these currencies, the Group may face the uncertainty that is not existed under fixed exchange rates manner. The Group could be exposed to potential risks such as foreign exchange losses and a decline in investment return.

Mitigation Measures: The Group reduces the impact of foreign exchange rate fluctuations through domestic and foreign currency management. Firstly, the Group actively carries out the foreign exchange settlement and sales business, and uses the membership of the inter-bank foreign exchange market of Sinotruk Finance Company to reduce the cost of foreign currencies conversion. Secondly, the Group reduces the impact of exchange rate fluctuations through the forward exchange rate contracts, forfaiting and other measures to collect receivables earlier and fix foreign exchange rates.

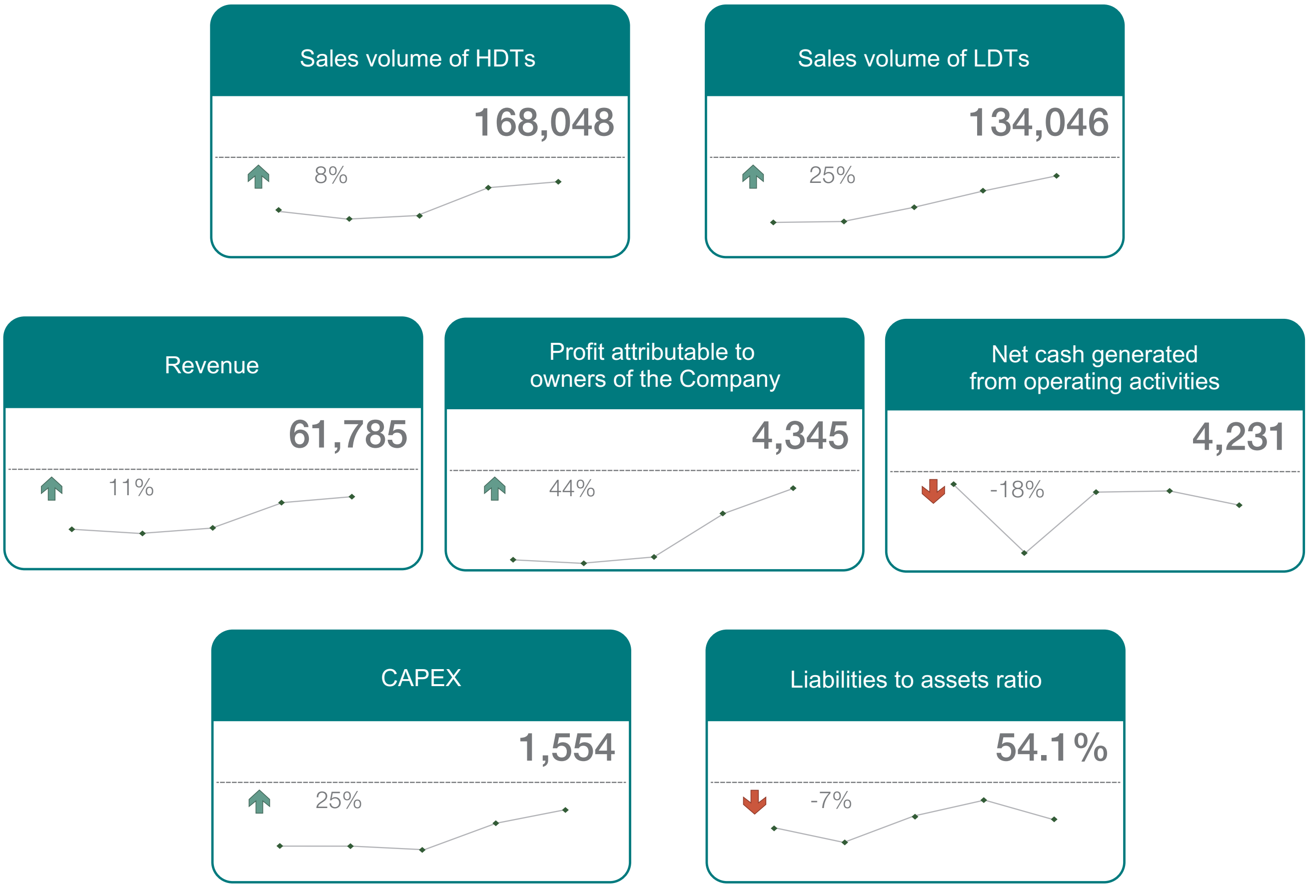
KEY PERFORMANCE INDICATORS

(All amounts of the indicators in RMB million unless otherwise stated)

Directors focus on the continuing development of the Group and interests of the Shareholders. Directors use financial and non-financial measures as benchmarks and assist to make assessments and decisions. Sales volume of HDTs and LDTs as well as revenue show actual operating results and performance. Cash is essential for survival and net cash generated from operating activities provides insight of the ability of cash to be generated from ongoing operating activities. Liabilities to assets ratio shows the management how to balance the use of equity and debts financing when maintaining the Group's liquidity. Capital expenditure ("**CAPEX**") provides information for medium to long term development of the Group. Profit attributable to owners of the Company provides the return to the Shareholders for the current reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

The following charts and table present these key performance indicators for the following years:



Key performance indicators	2018	2017	2016	2015	2014
HDTs sales volume (units)	168,048	156,243	91,511	81,959	102,675
LDTs sales volume (units)	134,046	107,660	77,961	54,906	52,361
Revenue	61,785	55,458	32,959	28,305	32,809
Profit attributable to owners of the Company	4,345	3,023	532	206	408
Net cash generated from operating activities	4,231	5,155	5,238	1,040	5,681
CAPEX	1,554	1,245	641	724	707
Liabilities to assets ratio	54.1%	58.4%	54.9%	48.7%	52.0%

KEY RELATIONSHIPS WITH CUSTOMERS, SUPPLIERS, EMPLOYEES AND OTHERS

The Group values and has always maintained good relationships with its customers, business partners (including suppliers and distributors) and employees. The Group believes that establishing long-term interests with them is a top priority in building mutual trust, loyalty and business development, and is also a reliance on the Group's success and sustainable development.

The Group strives to provide its customers with comprehensive services and formulated a service manual《「親人」服务手冊》to establish a service brand「親人」. The Group established a three-level service system consisting of customer service centers, regional dealers and special service stations, set up a 24-hour 400 service hotline and launched the Smart Sinotruk app「智慧重汽」 to manage customer complaints and feedback. Strictly pursuant to domestic and foreign laws and regulations pertaining to recalls of defective vehicles including the "Administrative Regulation on the Recall of Defective Motor Vehicles"《缺陷汽車產品召回管理條例》, the Group has formulated the "Motor Vehicle Recall Control Process"《汽車產品召回控制程序》, and established a complete product recall process with the function of identifying, collecting, analysing, delivering and storing quality issues information, built up the system for the voluntary recalling (or instruction recalling) of defective products, and taken remedial and prevention measures, so as to preserve customers' interests. The Group, through the "Administrative Measures for the Protection of Trade Secrets"《商業秘密保護管理辦法》, stipulates that customer information is an important part of the Group's trade secrets, and adopts a hierarchical approach to manage customer information to strictly protect customer privacy. The Group established the Customer Satisfaction Survey and Analysis Procedure「顧客滿意度調查分析程序」 to conduct annual customer satisfaction surveys and get an in-depth understanding of customer feedback, which are ultimately used in the preparation of the satisfaction survey research and analysis evaluation report.

While learning from advanced upstream and downstream supply chain companies, the Group conveys the Group's safety and corporate social responsibility concepts, and leads the supply chain companies to continuously improve and jointly realise their social responsibility commitments in the fields of environmental protection, safety and health. The Group conducts audits of the first suppliers of each subsidiary through the supplier access office, with subsequent supplier audits being carried out by the subsidiaries themselves. Through the "Approval Procedures for Supplier Access and Product Release"《配套產品供方准入和產品釋放批准程序》, the Group has established a strict supplier screening process to make sure that the products and service provided by suppliers will meet the requirements of the Group in order to continuously improve the quality of the Group's products. The Group transmits environmental and quality policies to suppliers through different channels and methods, requiring suppliers to meet the requirements of relevant industries and environmental protection. Through the terms of procurement contracts, suppliers are required to fulfill relevant social responsibilities.

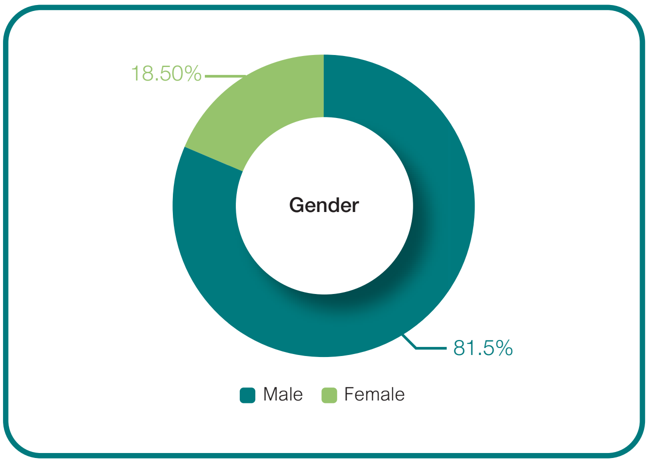
The Group always considers its employees as the most valuable asset of the enterprise. The Group provides a complete career path, ensures the safety and health of employees, and provides trainings to help intertwine employees' personal growth with enterprise development. The Group has formulated the "Positions, Performances and Wages System"《崗位績效工資制度》, adheres to the principle of compensation according to work, pays attention to efficiency and fairness, and has established a perfect performance salary system, which stipulates that employee compensation shall consist of basic salary, annual salary for seniority and performance appraisal salary. Employee income is linked to the economic benefits of the enterprise and employee's actual contribution, providing employees with competitive salary compensation. The Group adopts the "Recruitment and Management Methods of Personnel of the Supervisor-grades"《主管級人員聘任管理辦法》and nominates supervisor grade personnel through methods including public recruitment and appointment. The Group also adopts the "Implementation of Promotion Management of Non-leadership Positions at Level 8 and above"《非領導職務八崗及以上崗位晉升管理實施辦法》, which provides another promotion path for staff who are not in leadership positions.

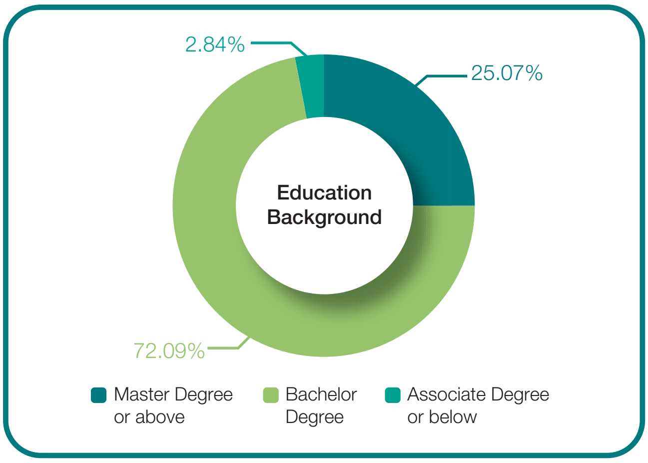
MANAGEMENT DISCUSSION AND ANALYSIS

The Group has attached great importance to the growth of personal qualification and professional competency of employees and has formulated the "Measures for Implementation of Employee Training"《員工培訓實施辦法》. With the support of the Group's education and training centers, all subsidiaries and departments, the Group provides training to its employees and has maintained records for employees' training to improve the overall quality of its workforce. The Group has established a three-level training system and provided trainings to middle and senior management personnel, high-level professionals, engineering technicians, marketing and management personnel, advanced technicians, on-site sub-department heads (sub-department heads directly under the Group), and workshop supervisors. The Group has cooperated with universities and made full use of their faculty and scientific research strength to train its high-level technicians. The Group has also accelerated the construction of network training institutes with the intent to achieve innovation of remote training mode by taking full advantage of network technology.

As at 31 December 2018, the Group had a total of 25,148 employees, which are classified by function, gender and education as follows:

	Number of employees	%
Management team	214	0.85
Technical staff	2,736	10.88
Research and development staff	1,008	4.01
Production staff	15,440	61.40
Operation and sales staff	1,600	6.36
Marketing staff	220	0.87
Administrative staff	3,930	15.63
Total	25,148	100.00





ENVIRONMENTAL POLICY, PERFORMANCE AND COMPLIANCE

The Group strictly complies with various applicable national, provincial and local laws and regulations, including the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》) and the Law of Prevention and Control of Environmental Pollution Caused by Solid Waste of the PRC (《中華人民共和國固體廢棄物污染環境防治法》). The Group formulates internal management policies, including an "Environmental Protection Management Policy"《環境保護管理制度》and a "Corporate Water Use Management Policy"《企業用水管理辦法》, and accredits with ISO14001 environmental management system certification. The Group regularly invites qualified third-party certification bodies to monitor waste gas discharges and ensure that discharged gases meet the requirements of the "GB 16297-96 Comprehensive Emission Standard of Air Pollutants"《GB 16297-96 大氣污染物排放標準》. Wastewater generated due to the Group's operation is treated to meet national, provincial and local standards for wastewater discharge, including the "GB/T 31962-2015 Wastewater Quality Standards for Discharge to Municipal Sewers"《GB/T 31962-2015污水排入城鎮下水道水質標準》before discharge. Online wastewater discharge monitoring systems are installed at wastewater treatment plant outlets to conduct online monitoring of the chemical oxygen demand (COD) and ammonia-nitrogen levels of the wastewater. The Group's systems are connected to the provincial and local environmental protection departments, and wastewater discharge is monitored in real-time. Through the implementation of strict controls over subsidiaries, pollutant discharges and resource consumption from production and operating activities are efficiently reduced.

During the Period, as far as the Group is aware, there was no material breach or non-compliance with applicable laws and regulations (including the above mentioned laws and regulations) by the Group, which had a significant impact on the business and operations of the Group.

During the Period, the Group has complied, in all material respects, with the requirements under the Companies Ordinance, the Listing Rules, the SFO and the Corporate Governance Code regarding, among others, disclosure of information and corporate governance.

BUSINESS STRATEGIES AND PROSPECTS

Looking out to 2019, the momentum of the global economic recovery has slowed, and international trade is expected to be more complicated and challenging. With regard to the domestic economy, as highlighted at the Central Economic Work Conference at the end of 2018, China's economy has seen changes amid overall stability with increased downward pressure. With such a complicated and challenging external environment, the economy is expected to face downward pressure.

With regard to the commercial vehicle industry, the scale of the local government special purpose bond issuance is expected to increase in 2019, which will gradually drive infrastructure investments and demand for construction vehicles. With the further roll out of the plan to Defend Blue Skies, a series of policies, including the "Action Plan for Controlling Diesel Truck Pollution"《柴油貨車污染治理攻堅戰行動計劃》, were released. The China VI Emission Standard will be implemented ahead of schedule in the Beijing-Tianjin-Hebei region and surrounding areas, the Yangtze River delta, Pearl River delta, the Chengdu-Chongqing region, and the Fenhe and Weihe plains. Coupled with the accelerated elimination of China III Emission Standard trucks, demand for new emission standard trucks will be increased. At the same time, it should be noted that the situation of "excessive vehicles and insufficient goods" in road freight has not been changed. The country is advancing the transformation of bulk cargo transportation from roads to railways and waterways which makes truck logistics transportation being challenged. High volatility is expected in the commercial vehicle market in 2019 as competition intensifies. In the face of the complicated market environment, we regard "customer satisfaction is our aim" as the core value, and regard "Building domestic-leading and world class whole series commercial vehicles manufacturer" as the strategic vision of the enterprise.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will focus on the following tasks:

1. Rapidly respond to changing market conditions. The Group will provide sufficient financial support and high quality products in market development, rapidly respond to problems based on customer feedback, closely integrate production, sales, marketing and research, and improve flexibility and variety of product to make sure that market demand is quickly met. The Group will also accelerate the automation of its production and manufacturing systems, improve labour productivity, and further enhance order delivery efficiency in order to support the sales activities.

2. Make breakthroughs in regional and other niche markets. The Group will benchmark itself against mainstream competing products and cater to specific segments of the market in an effort to sharpen its competitive edge. The Group will base on the consumers' product requirements to optimise its product mix. The Group will leverage its strength in design of truck power systems to maintain its leading position in large horsepower dump trucks. The Group will actively respond to regulatory and policy changes for mixer trucks to ensure that it retains its dominant position in the traditional mixer trucks market. The Group will explore the implementation of innovative marketing models, create a differentiated competitive edge, and strive to achieve breakthroughs in freight trucks market. For specialty vehicles market, the Group will target sanitation vehicles for a breakthrough, focusing on high value-added vehicles such as fire trucks, oil fields trucks and pump trucks, etc. The Group will make efforts to achieve breakthroughs in innovating and upgrading the business, marketing, and cooperation models, and establish a close and cooperative relationship with refitting companies to achieve win-win situations.

3. Focus on innovative marketing models. The Group will promote its innovative online sales model, which focuses on "+ Internet". In particular, the Group will leverage its "Smart Sinotruk" brand in the automobile after-sales market, and cooperate with well-known domestic platforms and Internet companies for shared success. The Group plans to continuously upgrade its marketing service models and processes, and make comprehensive and multi-dimensional marketing network improvement work. Furthermore, the Group will increase the network layout coverage, and in particular, expand the dealers' online sales network.

4. Develop a full range of mid- to high-end LDTs. The Group will promote the differentiated competitive advantages of each unit of the LTD segment in terms of product, marketing management, market segmentation, etc., and realise the leap-forward sales growth in the LTD market. The Group will increase investment and improve the modularization and automation level of LDT manufacturing. The Group will also realise comprehensive application of LDTs in niche market segments such as logistics parks, rural areas, and fruit and vegetable markets. Focusing on new energy and intelligence, the Group will lay out next-generation product planning and market development to build a platform for high-end LDT products.

5. Expand implementation of digital transformation. The Group will build out its office automation system, accelerate the integration and interconnection across production, sales and research and development information system. In addition, the Group will also focus on the development and application of intelligent connected vehicles.

6. Expand to international markets. The Group will strengthen its ability to cover regional markets, increase the roles of its overseas representative offices to enhance the supervision of its overseas sales and service networks. The Group continues to seize the opportunities from the "Belt and Road" initiative and drive sales of products through working more closely with overseas construction projects that are managed by Chinese enterprises. By aiming to continually bulk order sales and build long-term market share, the Group will strengthen its sales and distribution system, produce customized classic models for targeting specific markets, and strive to cultivate more sustainable markets.

FINANCIAL REVIEW

REVENUE, GROSS PROFIT AND GROSS PROFIT MARGIN

The Group's revenue for the Period recorded RMB61,785 million, representing an increase of RMB6,327 million or 11.4% YoY. The increase in the revenue is primarily attributable to the respective increase of sales volume of HDTs and LDTs by 7.6% and 24.5% and the optimisation of sales mix. The Group's gross profit for the Period was RMB11,175 million, representing an increase of RMB1,147 million or 11.4% YoY.

Gross profit margin for the Period was 18.1% (gross profit divided by revenue) same as last year.

DISTRIBUTION COSTS

Distribution costs for the Period was RMB3,021 million, representing a decrease of RMB208 million or 6.4% YoY. The decrease primarily resulted from the decrease in warranty expenses and, the classification of certain transportation costs at the amount of approximately RMB315 million as cost of sales instead of distribution costs during the Period, due to adoption of new accounting standards. During the Period, distribution costs to revenue of sales and service of trucks and engines ratio was 5.0%, representing a decrease of 0.9 percentage points YoY. The decrease in the ratio is mainly due to the decrease of warranty expenses by 21.1% and the increase of revenue of sales and service of trucks and engines by 11.0% YoY.

Warranty expenses accounted for 1.4% of revenue of trucks and engines for the Period, representing a decrease of 0.6 percentage points YoY. The decrease was mainly due to the improvement of the products quality which resulted in less warranty claims during the Period and the classification of certain warranty expenses at the amount of approximately RMB55 million as cost of sales instead of distribution costs during the Period due to adoption of new accounting standards.

ADMINISTRATIVE EXPENSES

Administrative expenses for the Period was RMB2,901 million, representing a decrease of RMB51 million or 1.7% YoY. During the Period, administrative expenses to revenue ratio was 4.7%, representing a decrease of 0.6 percentage points YoY. The decrease in the ratio was mainly due to the reclassification of provision for impairment of trade and other receivables at the amount of RMB304 million from administrative expenses to net impairment losses of financial assets in 2018, due to the adoption of new financial reporting standards. By exclusion of the effects of this reclassification, the administrative expenses increased by RMB253 million, due to increase in research and development costs and increase in salaries.

NET IMPAIRMENT LOSSES OF FINANCIAL ASSETS

Net impairment losses of financial assets for the Period was RMB304 million as compared to those of RMB234 million in year 2017, which was included in the administrative expenses. The impairment losses of trade and financing receivables was RMB307 million, representing 0.5% of total revenue for the Period. Further details of the trade and financing receivables was set out in the section headed "TRADE AND FINANCING RECEIVABLES".

OTHER GAINS - NET

Net other gains for the Period was RMB693 million, representing an increase of RMB269 million or 63.4% YoY. The increase was mainly due to the increase in gain from foreign currency transactions other than those related to cash and bank balances by RMB104 million and the increase in government grant by RMB101 million.

FINANCE COSTS – NET

Net finance cost for the Period was RMB74 thousand, representing a decrease of RMB262 million YoY. The decrease was mainly due to the cut of average borrowing scale resulting the deduction of interest expenses by RMB99 million and increase in net gain from the conversion of foreign currencies into RMB and revaluation gain of foreign currency cash and bank balances by RMB149 million.

SHARE OF PROFITS LESS LOSSES OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The net profit of investments accounted for using the equity method for the Period was RMB70 million, representing an increase of RMB25 million. The increase was mainly due to the increase of profit from the group of Prinx (Cayman) Holdings Limited.

INCOME TAX EXPENSE

Income tax expense for the Period was RMB993 million, representing an increase of RMB273 million or 37.9% YoY. The increase was due to the significant increase in profit before income tax.

PROFIT FOR THE PERIOD AND BASIC EARNINGS PER SHARE

Profit for the Period was RMB4,726 million, representing an increase of RMB1,390 million or 41.7% YoY. During the Period, operating profit ratio (operating profit divided by revenue) was 9.1% (2017: 7.7%) while net profit ratio (profit divided by revenue) was 7.6% (2017: 6.0%). Profit attributable to owners of the Company for the Period was RMB4,345 million, representing an increase of RMB1,322 million or 43.7% YoY. The basic earnings per share attributable to owners of the Company for the Period was RMB1.57, representing an increase of RMB0.48 or 44.0% YoY.

TRADE AND FINANCING RECEIVABLES

As at 31 December 2018, the trade receivables including related parties trade receivables were RMB5,412 million, representing a decrease of RMB2,399 million or 30.7% when compared the balance as at 31 December 2017. As at 31 December 2018, notes acceptance at the amount of RMB2,557 million (31 December 2017: RMB2,685 million) was not classified as trade receivables under the new financial report standards.

The trade receivables turnover (average trade receivables including related parties trade receivables divided by revenue multiplied by 365 days) for the Period was 31.6 days (2017 recalculated under new financial report standards by excluding notes receivables: 44.8 days), representing a decrease of 29.5% YoY and was still within the Group's credit policies which are from three to twelve months to the customers.

As at 31 December 2018, the trade receivables including related parties trade receivables aged not more than twelve months were RMB5,119 million or 94.6% of all trade receivables including related parties trade receivables.

At 31 December 2018, all notes receivables received from trading and bills discounting services at the amount of RMB2,557 million (classified as financial assets either at amortised cost or at fair value through other comprehensive income) aged not more than twelve months.

As at 31 December 2018, the financing receivables was RMB8,693 million, which included unsecured loan of RMB150 million to a related party, representing an increase of RMB1,608 million or 22.7% when compared the balance as at 31 December 2017.

As at 31 December 2018, the financing receivables including loan to a related party aged not more than twelve months were RMB6,802 million or 78.3% of all financing receivables including loan to a related party.

The finance segment of the Group has granted credit period generally from one year to three years. In addition, the auto financing services receivables are secured by the vehicles together with guarantees provided by the dealers and/or relevant parties while suppliers financing receivables are mainly secured by the beneficial owners of these applicants of financing services.

The Group reviews the repayment progress of key customers or customers with higher risk of default in repayment on monthly basis and assesses impairment loss by reference to their business, actual repayment information and other assessments. During the Period, the Group had made impairment loss allowance for trade receivables and financing receivables at the amount of approximately RMB245.9 million and RMB61.5 million respectively, of which amount at RMB202.1 million was made against one trade debtor.

TRADE PAYABLES

As at 31 December 2018, the trade payables including related parties trade payables were RMB21,789 million, representing a decrease of RMB648 million or 2.9% when compared the balance as at 31 December 2017.

The trade payables turnover (average trade payables including related parties trade payables divided by costs of sales of trucks and engines segments multiplied by 365 days) for the Period was 159.7 days (2017: 156.0 days), representing an increase of 2.4% YoY.

CASH FLOWS

Net cash inflow generated from operating activities for the Period was RMB4,231 million, compared with net cash inflow in last year same period, representing a decrease of cash inflow by RMB924 million or 17.9% YoY. The decrease was mainly due to the increase in payment of income tax and increase in payment of trade and bills payable.

Net cash inflow generated from investing activities for the Period was RMB979 million, compared with net cash outflow in last year same period, representing an increase of cash inflow of RMB3,656 million. The increase was mainly due to the receipts of the proceeds from the maturity of and liquidation of large amount of wealth management products during the Period.

Net cash outflow used from financing activities for the Period was RMB2,487 million, compared with net cash inflow in last year same period, representing an increase of cash outflow of RMB2,773 million. During the Period, in addition to the increase of payment of dividends to non-controlling interests, the Company increased the payment of dividends by RMB1,422 million as dividends to the Shareholders when comparing the dividends payment made in 2017. Furthermore, the Group cut its bank borrowings by RMB690 million during the Period while it increased its bank borrowings by RMB548 million last year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, the Group had cash and cash equivalents of RMB12,616 million, representing an increase of RMB2,776 million or 28.2% when compared the balance as at 31 December 2017. The Group's total borrowings (including borrowings from the related parties) were about RMB3,036 million as at 31 December 2018. Its gearing ratio (total borrowings divided by total assets) was 4.9% (31 December 2017: 6.6%). As at 31 December 2018, current ratio (total current assets divided by total current liabilities) was 1.3 (31 December 2017: 1.3).

As at 31 December 2018, all borrowings were denominated in RMB (31 December 2017: all in RMB) and all borrowings are charged with reference to bank's preferential fixed rates and were due within one year. The maturity profile of all borrowings were:

	As at 31 December 2018	As at 31 December 2017
Repayable within one year	**RMB 3,036 million**	RMB 4,206 million

As at 31 December 2018, total consolidated equity of the Company was RMB28,328 million, representing an increase of RMB2,897 million or 11.4% when compared with the balance as at 31 December 2017.

As at 31 December 2018, the Company's market capitalisation was RMB28,546 million (calculated based on the issued share capital of the Company: 2,760,993,339 Shares, closing price: HKD11.80 per Share and at the exchange rate of 1: 0.8762 between HKD and RMB).

As at 31 December 2018, total available credit facilities of the Group from the banks amounted to RMB36,908 million, of which RMB5,488 million had been utilised (31 December 2017: RMB5,400 million); an aggregate amount of RMB474 million (31 December 2017: RMB467 million) of security deposits and restricted bank deposits was pledged to secure various credit facilities. In addition, the finance segment has made mandatory deposits of RMB1,865 million to PBOC for its financial operations. The Group meets its daily liquidity needs by matching operating

MANAGEMENT DISCUSSION AND ANALYSIS

cash flow patterns with funds on hand and enhances its liquidity by way of application for longer credit periods from suppliers, utilization of banking facilities and issuance of bills such as short-term commercial acceptance notes and bank acceptance notes.

SIGNIFICANT INVESTMENTS

INVESTMENTS IN SUBSIDIARIES

In May 2018, the Group had completed the capital injection at the amount of RMB957.2 million to HOWO Auto Finance Company and increased its equity interest in HOWO Auto Finance Company from 50% to approximately 82.15%. Details of the capital injection were disclosed in the Company's announcement dated 1 March 2018. In December 2018, the Company completed the capital injection of RMB115.8 million to HOWO Auto Finance Company. After the capital injection, the Group's equity interest in HOWO Auto Finance Company further increased to approximately 83.33%.

In September 2018, the Group acquired 0.16% equity interest in Sinotruk Finance Company for a consideration of RMB6,793,000, which subsequently increased the Group's equity interest in Sinotruk Finance Co., Ltd. in Sinotruk Finance Company to 94.65%.

EQUITY INVESTMENTS FORMING PART OF THE GROUP'S BUSINESS OPERATIONS

The Group has invested long term equity investment for the purposes of forming part of its business operations:

a) Investments accounted for using equity method

In August 2018, Ji'nan Power Company and Beijing Changjiu Logistics Co., Ltd. entered into an agreement to set up an associated company, Shandong Changjiu Sinotruk Logistics Co., Ltd. for the primary purpose of provision for the premier delivery services. Ji'nan Power Company and Beijing Changjiu Logistics Co., Ltd. injected RMB5 million and RMB15 million in cash for 25% and 75% equity interest in Shandong Changjiu Sinotruk Logistics Co., Ltd. respectively.

As at 31 December 2018, the amount of investments in associates and joint ventures was RMB534 million, representing 0.9% of the total assets. Performance and details of investments accounted for using the equity method are disclosed in the section headed "Share of profits less losses of investments accounted for using the equity method". Further information is disclosed in the Note 11 to the consolidated financial statements.

b) Other long term equity investments

As at 31 December 2018, the Group's unlisted equity investments for long term strategic investment purpose was amounted to RMB38 million, representing 0.1% of the total assets. These investments are classified as financial assets at fair value through other comprehensive income.

OTHER SECURITIES INVESTMENTS

The Group also invests listed securities in Hong Kong and Shanghai. These investment are short-term and for purposes of trading and managing the Group's liquidity. As at 31 December 2018, the Group had equity investment at RMB104 million, representing 0.2% of the total assets. These equity investment are accounted for as equity investment included in financial assets at fair value through other comprehensive income. Their fair values keep changing from time to time depending on but not limit to their operation results, economic situations and stock markets sentiments.

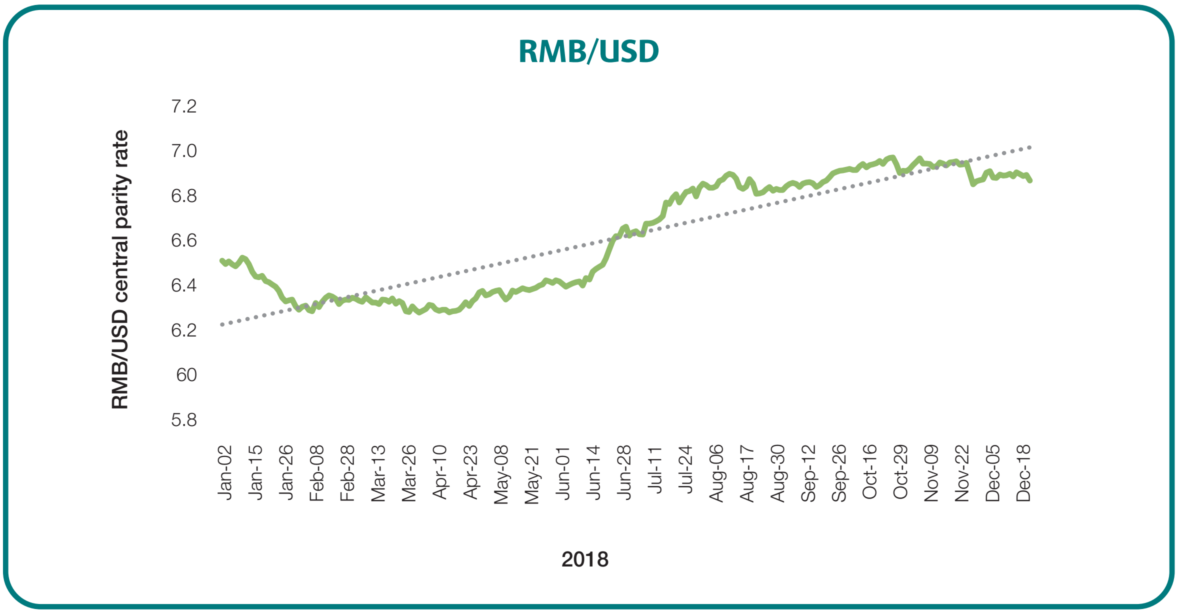
CHARGES ON GROUP ASSETS

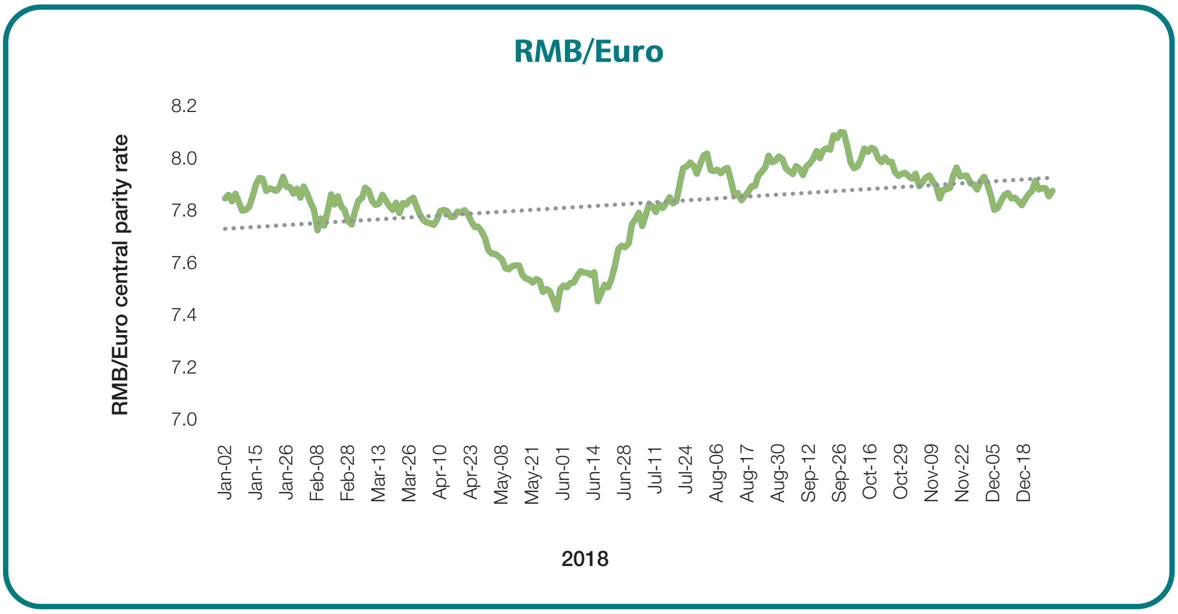
Save as disclosed, as at 31 December 2018, there were no assets of the Group being pledged to secure credit facilities (31 December 2017: Nil).

FINANCIAL MANAGEMENT AND POLICY

The finance department is responsible for the financial risk management of the Group. One of the primary objectives of our financial policies is to manage exchange rate risk. The major foreign exchange risk exposure arises from its exporting and importing activities, business operations outside the PRC as well as the financing activities in Hong Kong. Although the Group does not aim for speculative activities, the Group uses forward contracts to manage the foreign exchange risk and purchases some wealth management products which return are linked with non RMB foreign currencies.

The following tables show the RMB/USD and RMB/Euro central parity rates for the Period in the PRC (source: State Administration of Foreign Exchange, the PRC):





The RMB/USD central parity rate in the PRC as at 28 December 2018 was 6.8632, representing a depreciation of RMB by 5.04% when compared the rate of 6.5342 as at 29 December 2017. The RMB/Euro central parity rate in the PRC as at 28 December 2018 was 7.8473, representing a depreciation of RMB by 0.58% when compared the rate of 7.8023 as at 29 December 2017. During the Period, both the overall trend of RMB/USD and RMB/Euro central parity rates show the depreciation of RMB.

As at 31 December 2018, most of the Group's assets and liabilities were denominated in RMB, except for cash and bank deposits which in total were equivalent to approximately RMB1,233 million, financial assets at fair value through profit or loss of approximately RMB104 million, accounts receivable and other receivable of approximately RMB2,166 million, accounts and other payables of approximately RMB122 million, all of which were denominated in currencies other than RMB.

During the Period, the Group recorded foreign exchange gains at RMB46 million in operating profit and foreign exchange gains at RMB53 million in finance costs. The potential foreign exchange impacts to the USD and Euro denominated net assets of the Group as at 31 December 2018 are:

	USD denominated net assets	Euro denominated net assets
5% strength/ weakness by RMB	Loss/Gain before tax of RMB157 million	Loss/Gain before tax of RMB6 million

GOING CONCERN

Based on the current financial forecast and the funding that can be utilized, the Group will have sufficient financial resources to continue its operations. As a result, the financial statements were prepared under the going concern assumption.

CONTINGENT LIABILITIES, LEGAL PROCEEDINGS AND POTENTIAL LITIGATION

During the Period, the Group was not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on the Group's financial condition and results of operations. The Group estimates that the total amount of claims of all lawsuits is approximately RMB85 million. There was no provision for legal claims as at 31 December 2018.

DISCLAIMER

NON GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("NON-GAAP") MEASURES

Certain non-GAAP measures, such as export revenue (including affiliated exports), are used for assessing the Group's performance. These non-GAAP measures are not expressly permitted measures under GAAP in Hong Kong and may not be comparable to similarly titled measures for other companies. Accordingly, such non-GAAP measures should not be considered as an alternative to operating income as an indicator of the operating performance of the Group or as an alternative to cash flows from operating activities as a measure of liquidity. The use of non-GAAP measures is provided solely to enhance the overall understanding of the Group's current financial performance. Additionally, since the Group has historically reported certain non-GAAP results to investors, it is considered the inclusion of non-GAAP measures provides consistency in the Group's financial reporting.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Cai Dong (蔡東先生), aged 55, has been the president of the Company and an executive Director since 12 February 2007 and the Chairman since 30 October 2018. In addition, Mr. Cai is also a director of certain subsidiaries of the Company. Mr. Cai is a senior engineer with a bachelor's degree in engineering from Jiangsu Polytechnic University (江蘇工學院), the PRC and an executive MBA degree from Nankai University (南開大學), the PRC. He is currently the vice-chairman of China Association of Automobile Manufacturers and vice-chairman of China Chamber of International Commerce. He received an "Outstanding National Entrepreneur" award conferred jointly by the China Enterprises Confederation (中國企業聯合會), China Enterprise Directors Association (中國企業家協會) and China Enterprise Management Science Foundation (中國企業管理科學基金會) in April 2006 and Ji'nan City Preeminent Science and Technology Award in February 2013. He joined Ji'nan Auto Manufacturing Factory in 1983 and led its research and development, production and marketing. Mr. Cai was previously the director of the technology center of CNHTC. Mr. Cai was a director, chief engineer and the general manager of CNHTC from 2001 to 2007.

Mr. Wang Shanpo (王善坡先生), aged 54, has been our executive Director and chief engineer of the Company since 12 February 2007. Mr. Wang is an engineering and technical application researcher with over 30 years of experience in automotive research and development and engineering. Mr. Wang graduated with a bachelor's degree in engineering from Jilin University of Technology (吉林工業大學), the PRC in 1984, with a master's degree in engineering from Shandong Industrial University (山東工業大學), the PRC in 1991 and with a Ph.D. degree in engineering from Jiangsu University (江蘇大學), the PRC in December 2011. He joined CNHTC in 1984 and was the chief engineer of CNHTC. Mr. Wang was the director of Sinotruk Ji'nan Technical Center Co., Ltd. from 1999 to 2000.

Mr. Liu Wei (劉偉先生), aged 48, has been our executive Director since 9 December 2014. In addition, Mr. Liu is currently a director of certain subsidiaries of the Company. He has extensive experience in the commercial vehicle industry. Mr. Liu graduated from the Wuhan Institute of Technology (武漢工學院) (now known as the Wuhan University of Technology (武漢理工大學)), the PRC and received a bachelor's degree in engineering majoring in automotive internal combustion engineering in July 1991. In June 2009, he received a master's degree in business administration from the School of Management of the Shandong University (山東大學管理學院), the PRC. Since January 2010, Mr. Liu serves as the head of the international sales division of the Company. Prior to joining the Company, Mr. Liu served in various technical and management positions of CNHTC including the chief of the products testing division, head of the vehicles inspection center, deputy head and head of the technology center from July 1991 to January 2010. He was a director of Ji'nan Truck Company from August 2003 to June 2006 and a director of CNHTC from December 2012 to October 2014.

Mr. Liu Peimin (劉培民先生), aged 50, has been our executive Director since 9 December 2014. In addition, Mr. Liu is currently a director of certain subsidiaries of the Company. He has extensive experience in the vehicle industry. Mr. Liu received a bachelor's degree in casting technology and equipment from the Taiyuan Institute of Machinery (太原機械學院) (now known as North University of China (中北大學)), the PRC in July 1990. Mr. Liu serves as the operation controller of the Company since August 2012. Prior to joining the Company, Mr. Liu served in various management positions in China National Heavy Duty Truck Group Company (中國重型汽車集團公司), the predecessor of CNHTC ("CNHTC Predecessor") and CNHTC. He was the office secretary and manager of CNHTC Predecessor and the deputy factory manager of the Sichuan Automobile Factory (a subsidiary of CNHTC Predecessor) from July 1990 to July 1997 and the general manager of China National Heavy Duty Truck Group Sales Company (中國重型汽車集團銷售公司), a wholly-owned subsidiary of CNHTC from July 1997 to April 2001, the chairman of CNHTC Special Vehicle Limited (中國重汽集團專用汽車公司), a wholly-owned subsidiary of CNHTC from April 2001 to December 2009, the assistant to the general manager of CNHTC and the chairman of Sinotruk International Co., Ltd. from December 2009 to August 2012. Mr. Liu was a director of CNHTC Predecessor from July 1997 to April 2001 and a director of CNHTC from April 2001 to October 2014.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Dai Lixin (戴立新先生), aged 51, has been our executive Director since 30 October 2018. In addition, Mr. Dai is currently a director of certain subsidiaries of the Company. Mr. Dai has vast experience in IPOs, financing operations, cross border acquisition and corporate governance for listed companies. He is a committee member of the board secretaries committee for The Listed Company Association of Shandong (山東上市公司協會), as well as an affiliate member of The Hong Kong Institute of Chartered Secretaries. Mr. Dai is a senior economist with a university degree. Mr. Dai joined Weifang Diesel Engine Factory (濰坊柴油機廠) in 1987 and held various managerial positions and previously was the deputy departmental head of the capital operations department of Weifang Diesel Engine Factory. From April 2003 to May 2015, Mr. Dai was the departmental head of the securities department of Weichai Power. Mr. Dai was the board secretary of Weichai Power from September 2003 to October 2018, and the vice president and departmental head of the capital operation department of Weichai Power from May 2015 to October 2018. Since 16 October 2018, Mr. Dai has been the chief investment officer of CNHTC.

Mr. Sun Chenglong (孫成龍先生), aged 48, has been our executive Director since 29 January 2019. In addition, Mr. Sun is currently a director of certain subsidiaries of the Company. Mr. Sun is a senior accountant, graduated from the Shandong University of Finance and Economics (山東財政學院), the PRC in July 1997 and holds an undergraduate degree. Mr. Sun began his career with CNHTC Group in July 1994. From July 1994 to April 2015, Mr. Sun has taken various finance-related and managerial positions within the CNHTC Group and the Group, including as finance manager, financial controller and director of certain subsidiaries of CNHTC, and as deputy general manager of the finance department of the Company from April 2007 to January 2009. From April 2015 to August 2016, Mr. Sun joined Sinotruk Ji'nan Commercial Truck Co., Ltd. (中國重汽集團濟南商用車有限公司) as the deputy general manager and the financial controller of the sales department. From August 2016 to June 2017, Mr. Sun was appointed as the financial controller of Sinotruk Ji'nan Commercial Truck Co., Ltd., and concurrently held the position of the financial controller of the manufacturing department of Sinotruk Ji'nan HOWO Bus Co., Ltd. (中國重汽集團濟南豪沃客車有限公司) (The Company disposed of Sinotruk Ji'nan HOWO Bus Co., Ltd. to CNHTC in May 2017 and thereafter it becomes a subsidiary of CNHTC). From June 2017 to December 2018, Mr. Sun was appointed as the general manager of the finance department of CNHTC. Since June 2017, he acted as an executive director, the legal representative and the general manager of CNHTC Ji'nan Investment Co., Ltd. (中國重汽集團濟南投資有限公司) (being a subsidiary of CNHTC). Mr. Sun has been holding the position as a director of Weihai City Commercial Bank Co., Ltd. (威海市商業銀行股份有限公司), which is held as to 16.278% by CNHTC, as well as a director of Sinotruk Finance Company since March 2018 and April 2018 respectively. Since June 2018, he has been acting as a director and the general manager of Sinotruk Global Village Investment Limited (中國重汽地球村投資有限公司) (being a subsidiary of CNHTC). He has also been appointed the deputy financial controller of CNHTC since December 2018. Mr. Sun was awarded the titles of "Advanced Accounting Worker in Shandong Province" (山東省先進會計工作者) in 2008 and "Shandong Province Fumin Xinglu Worker Medal" (山東省富民興魯勞動獎章) in 2012.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Jörg Mommertz, aged 60, has been our executive Director since 30 October 2018. Mr. Mommertz completed his vocational training as a truck mechanic with KIW Gera in 1977, and obtained a Master in Engineering (DiplomIngenieur) from Ingenieurschule für Verkehrstechnik Dresden in 1985. Mr. Mommertz has around 36 years of diversified management experience. He began his career with MAN Truck & Bus AG in 1991 as the head of service of a MAN Service Center in Germany. MAN Truck & Bus AG is a subsidiary of MAN SE. In 1996, he was appointed as director of aftersales of MAN Truck & Bus Belgium, a wholly-owned subsidiary of MAN Truck & Bus AG, and was later appointed as director of sales. From 2003 to 2006, Mr. Mommertz served as the chief executive officer of MAN Truck & Bus Sweden and Denmark, where he also acted as the head of sales region North (Norway, Sweden, Denmark, Finland, and Iceland) during this period. From 2007 to 2012, Mr. Mommertz held the position of chief executive officer of MAN Truck & Bus Poland, during which he was appointed as the head of sales region Europe East (Poland, Czech Republic, Slovakia, Lithuania, Latvia, Estonia, Romania, Finland, Bulgaria and Moldova). In 2012, Mr. Mommertz held the position of chief executive officer of MAN Truck & Bus Russia and the head of sales region CIS. From 2013 to 2016, he acted as the shareholder representative of MAN Truck & Bus AG in the Uzbekistan joint venture (MAN Auto Uzbekistan JV LLC). In October 2016, Mr. Mommertz became the chairman and managing director of MAN Trucks India.

Non-executive Directors

Mr. Andreas Hermann Renschler, aged 60, has been our non-executive Director since 1 October 2015. He has extensive experience in the vehicle industry. Mr. Renschler received his diploma in business engineering at the Technical College in Esslingen, Germany in 1983 and his diploma in business administration at the University of Tübingen, Germany in 1987. Mr Renschler began his career at Daimler-Benz AG in 1998. From April 1993 to December 1998, he took charge of the Mercedes-Benz M-Class unit and was responsible for planning and implementation of the company's first US plant in Tuscaloosa, Alabama, where he later served as the chief executive officer of Mercedes-Benz U.S.I., which is principally engaged in M-Class production. From January 1999 to September 1999, he served as the senior vice president of DaimlerChrysler AG, which is principally engaged in the passenger vehicle and commercial vehicle business, where he was responsible for personnel development. From October 1999 to October 2004, Mr. Renschler served as the chairman of the board of management of smart GmbH, which is principally engaged in small passenger car business. From October 2004 to March 2013, Mr. Renschler served as a member of the board of management of Daimler AG, which is principally engaged in the passenger vehicle and commercial vehicle business, where he was responsible for managing Daimler Trucks and Daimler Buses. From April 2013 to January 2014, he was in charge of the production and procurement for Mercedes-Benz Cars and Mercedes-Benz Vans. In February 2015, he joined Volkswagen AG. He is a member of the board of management of Volkswagen AG, responsible for the brand group "Truck & Bus", and is chief executive officer of TRATON SE (formerly Volkswagen Truck & Bus GmbH). Volkswagen AG and TRATON SE (formerly Volkswagen Truck & Bus GmbH) are the indirectly non-wholly owned subsidiaries of FPFPS. Furthermore, on 28 February 2017, Mr. Renschler was appointed as a member of the board of directors of Navistar International Corporation which shares are listed on the New York Stock Exchange (symbol: NAV). The FPFPS Group held approximately 16.9% of the issued share capital of Navistar International Corporation.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Joachim Gerhard Drees, aged 54, has been our non-executive Director since 1 October 2015. He has extensive experience in the vehicle industry. Mr. Drees received his master's degree in business administration at the University of Stuttgart, Germany in March 1991. He received his master's degree in business administration from the Portland State University, the United States in June 1989. Mr. Drees served in various management positions at DaimlerChrysler AG, which is principally engaged in the passenger vehicle and commercial vehicle businesses, among others, as the commercial head of the transmission business unit in Gaggenau as well as head of commercial vehicles controlling of Daimler Truck Group in Stuttgart from May 1996 to July 2006. He served as a partner at HgCapital LLP, a British investment company, where he was responsible for investment portfolio management from July 2006 to August 2012. He served as the chief financial officer and head of the divisions of finance and controlling, merger and acquisitions, human resources, administration and globalisation support at Drees & Sommer AG, which is principally engaged in project management and real estate consulting from September 2012 to August 2014. Mr. Drees has been the chief executive officer of MAN Truck & Bus AG since April 2015 as well as a member of the executive board of TRATON SE (formerly Volkswagen Truck & Bus GmbH) since June 2015 and chief executive officer and chairman of executive board of MAN SE since October 2015.

Mr. Jiang Kui (江奎先生), aged 55, has been our non-executive Director since 30 October 2018. In addition, Mr. Jiang is currently a director (non-executive) of certain subsidiaries of the Company. Mr. Jiang graduated with a bachelor's degree in engineering from the Automobile Engineering Department of Tsinghua University, the PRC in 1988, and a master degree in business management from Wright State University, United States of America in 2004. Mr. Jiang possesses extensive experience in the equipment manufacturing industry. From July 1988 to November 1999, Mr. Jiang held various technical and managerial positions at Shandong Bulldozer General Factory (山東推土機總廠), including assistant engineer, deputy head of assembly sub-factory, deputy general manager of the import and export department etc. From November 1999 to July 2006, Mr. Jiang held the positions of deputy departmental head of the manufacturing department, departmental head of the supply department, departmental head of the manufacturing department, departmental head of the sales department, deputy general manager and standing deputy general manager of Shantui Construction Machinery Co., Ltd. (山推工程機械股份有限公司). From July 2006 to September 2008, Mr. Jiang was the deputy general manager of Shandong Engineering Equipment Group Co., Ltd. (山東工程機械集團有限公司). From September 2008 to July 2009, Mr. Jiang held the position of director and deputy general manager of Weichai Group Holdings Limited (濰柴控股集團有限公司). Since July 2009, Mr. Jiang has been the general manager of Shandong Heavy Industry Group Co., Ltd. (山東重工集團有限公司). From July 2009 to January 2016, Mr. Jiang was the director of Shandong Heavy Industry Group Co., Ltd (山東重工集團有限公司). Mr. Jiang has been a non-executive director of Weichai Power since June 2012, a director of Ferretti International Holdings S.p.A. since July 2012, the supervisor of KION Group AG since December 2012, a director of U.S. based PSI Inc., and a director of Shantui Construction Engineering Co., Ltd. (山推工程機械股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000680), since April 2017. Mr. Jiang was awarded with the title of Shandong Province Model Worker in April 2013.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Annette Danielski, aged 53, has been our non-executive Director since 5 March 2019. Ms. Danielski graduated from the University of Fulda in Germany with a Diploma in Business Administration in Finance and Controlling in 1988. She has more than 25 years of experience in finance and controlling in global companies, and possesses advanced knowledge in general management along with the ability to combine strategy with operational tasks and projects. From 1988 to 1999, Ms. Danielski served as an analyst and senior specialist at Daimler-Benz AG. From 1999 to 2004, she held various management positions at various subsidiaries of DaimlerChrysler AG, including senior manager for Controlling Engines and Powertrain, and senior specialist for Business/Profit & Loss planning and reporting. From 2005 to 2011, Ms. Danielski acted as a senior manager of reporting and controlling department of Business Unit Daimler Trucks, a division of Daimler AG. From January 2012 to August 2017, she was then appointed as a director of costs and funding controlling for Powertrain Plants & Supply Chain MBC of Daimler AG. From June 2016 to August 2017, she also concurrently held an interim position as director of cost and funding controlling at the Mercedes Benz Car Group. From September 2017 to September 2018, Ms. Danielski worked as the head of corporate controlling in Audi AG. Since October 2018, Ms. Danielski has been the head of group finance in TRATON SE and, since November 2018, member of the supervisory board of MAN SE and MAN Truck & Bus AG.

Independent Non-executive Directors

Dr. Lin Zhijun (林志軍博士), aged 64, has been our independent non-executive Director since 26 July 2007. Dr. Lin is an experienced accounting educator and researcher. Dr. Lin graduated from Xiamen University (廈門大學), the PRC in 1982 with a master's degree in economics and later received a Ph.D. degree in Economics (Accounting) from Xiamen University in 1985. Dr. Lin also received a master's degree (MSc in Accounting) from University of Saskatchewan, Canada in 1991. He is a member of the American Institute of Certified Public Accountants (AICPA), the Chinese Institute of Certified Public Accountants (CICPA) and the Certified Management Accountants of Australia (CMA). He is a member of various educational accounting associations, including the American Accounting Association and the International Association for Accounting Education and Research. He is currently the Vice President of Macau University of Science and Technology and the dean of School of Business of Macau University of Science and Technology. Dr. Lin was previously an auditing staff at an international accounting firm (Touche Ross International, now known as "Deloitte Touche Tohmatsu") in Toronto, Canada. He has been teaching at Xiamen University in China, The University Lethbridge in Canada, The University of Hong Kong and Hong Kong Baptist University and Macau University of Science and Technology since 1983. Dr. Lin is also an author of a series of professional articles and books. Dr. Lin currently is also an independent non-executive director of five companies which securities are listed on the Main Board of the Stock Exchange, including China Everbright Limited (stock code: 0165), CITIC Dameng Holdings Ltd. (stock code: 1091), Springland International Limited (stock code: 1700), BOCOM International Holdings Company Limited (stock code: 3329) and Dali Foods Group Company Limited (stock code: 3799).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Zheng (陳正先生), aged 73, has been our independent non-executive Director since 26 July 2007. Mr. Chen has over 30 years of experience in the mechanical design and automotive engineering field. Mr. Chen graduated from the Beijing University of Technology (北京工業大學) in the PRC in 1970 with a bachelor's degree in mechanical engineering. Mr. Chen was awarded as a researcher-grade senior engineer in 1997. He was the deputy head of the technology division of China Auto Parts and Accessories Corporation (中國汽車零部件工業公司), the department head of the international cooperation department of China National Automotive Industrial Corporation(中國汽車工業總公司), the vice general manager of China National Automotive Industry Import and Export Corporation (中國汽車工業進出口公司) and the vice chairman of the board of directors of China Automotive Finance Company Limited (中汽財務有限責任公司).

Mr. Yang Weicheng (楊偉程先生), aged 72, has been our independent non-executive director since 6 November 2013. Mr. Yang is an experienced lawyer in the PRC. Mr. Yang graduated from Shandong University, the PRC in 1982, majored in history. He is a qualified lawyer in the PRC and is currently the management partner of Shandong Qindao Law Firm (山東琴島律師事務所) in Shandong, the PRC, and the counselor of Shandong Provincial People's Government. He was a deputy director of the general office of Qingdao Municipal Justice Bureau (青島市司法局) from August 1991 to February 1994. From April 1999 to June 2008, he was the vice president of All China Lawyers Association (中華全國律師協會). During January 2005 to April 2011, he was the president of the Shandong Lawyers Association (山東省律師協會). He was awarded "Ten Best Lawyers of China" (全國十佳律師) by the Ministry of Justice of the PRC in 1999. He was a member of the 10th, 11th and 12th National People's Congress of China. Mr. Yang is currently an independent director of Songz Automobile Air Conditioning Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002454), an independent director of Shandong Huatai Paper Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600308) and a supervisor of Tsingtao Brewery Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600600 and listed on the Main Board of the Stock Exchange, stock code: 0168).

Dr. Wang Dengfeng (王登峰博士), aged 55, has been our independent non-executive Director since 9 March 2016. Dr. Wang is currently a professor and doctoral tutor of the Department of Automobiles at the School of Automotive Engineering of Jilin University (吉林大學), the PRC. Dr. Wang is also the chairman of the panelist committee of the China Automotive Lightweight Technology Innovation Strategic Alliance (中國汽車輕量化技術創新戰略聯盟), a member and a council member of the executive committee of the Society of Automotive Engineers of China (中國汽車工程學會), the deputy chairman of the Safety Technology Committee of the Society of Automotive Engineers of China (中國汽車工程學會汽車安全技術分會) and the deputy chairman of the Vehicle Noise and Vibration Committee of the Society of Automotive Engineers of China (中國汽車工程學會汽車振動噪聲分會). Dr. Wang completed his bachelor, master and doctorate degrees in engineering at Jilin University of Technology (吉林工業大學), the PRC. After his graduation from Jilin University of Technology in 1990, he remained at Jilin University of Technology as a lecturer, where he was subsequently promoted to the positions of associate professor, professor, deputy head and then head of the Automotive and Tractor Faculty. Between August 1997 and July 1998, Dr. Wang attended at the University of Birmingham, the United Kingdom as a visiting professor, after which he returned to Jilin University of Technology and continued to serve as a professor, doctoral tutor and head of the Faculty of Automotive and Tractor until May 2000. In June 2000, Jilin University of Technology merged with Jilin University and from December 2000 to December 2008, Dr. Wang served as a professor, doctoral tutor and associate dean of the School of Automotive Engineering of Jilin University. Since January 2009, he has been serving as a professor and doctoral tutor of the Department of Automobiles at the School of Automotive Engineering of Jilin University. Dr. Wang leads several National Research Programs, National Key Technology R&D Program, National High-tech R&D Program (863 Program) and projects supported by the National Natural Science Foundation of China. Dr. Wang was conferred with the title of "Excellent National Teacher" by the Ministry of Education of PRC in 2007. Among other awards he has received in the past, Dr. Wang was awarded the "Outstanding Contribution Award" of the 50th Anniversary of the Establishment of the Society of

Automotive Engineers of China (中國汽車工程學會建會50週年「突出貢獻獎」) in 2012, second class reward of Jilin Province S&T Progress Awards in 2015, first class reward of China Automotive S&T Award in 2016, second class of Ministry of Education of China Science and Technology Award in 2017 and special class of Science and Technology Progress Award of China General Chamber of Commerce in 2017. In 2018, he was honored with the "Outstanding Person" Award in the Chinese Automobile Industry for the 40th anniversary of the reform and opening up.

Mr. Zhao Hang (趙航先生), aged 63, has been our independent non-executive Director since 11 April 2016. Mr. Zhao is a research-grade senior engineer and obtained his bachelor degree in engineering from Jilin University of Technology, the PRC (中國吉林工業大學) in July 1982. In October 2003, he obtained a degree in executive master of business administration from China Europe International Business School (中歐國際工商學院). Mr. Zhao is also a doctoral tutor at Wuhan University of Technology, the PRC (中國武漢理工大學), and an instructor and adjunct professor at Tongji University, the PRC (中國同濟大學), Jilin University, the PRC (中國吉林大學), Jiangsu University, the PRC (中國江蘇大學) and Chongqing Jiaotong University, PRC (中國重慶交通大學) (which is previously known as Chongqing Vocational College of Transportation (重慶交通學院)). In addition, Mr. Zhao was the deputy chairman and chief secretary of the National Technical Committee of Auto Standardization (全國汽車標準化技術委員會), the president of the China Automobile Human Resources Association (中國汽車人力資源協會), the deputy chairman of the Society of Automotive Engineers of China (中國汽車工程學會), the vice-president of the China Association of Automobile Manufacturers (中國汽車工業協會), the deputy chairman of the China Intelligent Transportation Systems Association (中國智能交通協會), the council member of the China Machinery Industry Federation (中國機械工業聯合會), a member of the steering committee of the National 863 Electric Vehicle Key Project (國家863電動汽車重大專項領導小組), a member of the steering committee of the National Clean Energy Automotive Action (國家清潔汽車行動領導小組) and a member of the steering committee of the Tianjin Clean Energy Automotive Action (天津市清潔汽車行動領導小組). After his graduation from Jilin University of Technology in 1982, Mr. Zhao joined the Transportation Engineering Institute of the Chinese People's Liberation Army (中國人民解放軍運輸工程學院) as an instructor until October 1987. After that, he was employed by the China Automotive Technology & Research Center (中國汽車技術研究中心), and had since then until November 2015 held various positions therewith including the center deputy chairman, center deputy secretary of the party committee and center secretary of the party committee and center chairman. Among the awards and recognitions he has received in the past, Mr. Zhao was conferred with the title of Young Technology Specialist in the Machinery Industry (中國機械工業青年科技專家) in the PRC in 1995 and received the 2004 China Automobile Manufacturing Outstanding Technology Talent Award (2004年中國汽車工業優秀科技人才獎). Mr. Zhao is a director of China Yiqi Co., Ltd. (中國一汽股份有限公司) (a unlisted company), an independent director of Shanghai Baolong Automotive Corporation (a company listed on the Shanghai Stock Exchange, stock code: 603197) since 30 December 2016, a chairman of Zhongfalian Investment Co., Ltd. (中發聯投資有限公司) (a unlisted company) since 16 May 2017, an independent non-executive director of Sun.King Power Electronics Group Limited, (a company listed on the Main Board of the Stock Exchange, stock code: 0580) since 4 December 2017, an independent director of Hainan Drinda Automotive Trim Co., Ltd. (海南鈞達汽車飾件股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002865) since 26 October 2018 and an independent director of SG Automotive Group Co., Ltd. (遼寧曙光汽車集團股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600303) since 29 October 2018. Mr. Zhao was a director of Zhejiang Wanfeng Auto Wheel Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002085) from 29 November 2013 to 26 February 2017.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liang Qing (梁青先生), aged 65, has been our independent non-executive Director since 1 September 2016. Mr. Liang graduated from Beijing Open University, the PRC (formerly known as Beijing Radio and Television University) (北京廣播電視大學) in 1985, where he studied Chinese language and literature. Mr. Liang was a director and the general manager of China Minmetals H.K. (Holdings) Limited. Mr. Liang has abundant experience in international trading and investment. Mr. Liang is currently an independent non-executive director and a member of the audit committee and remuneration committee of Silver Grant International Industries Limited (a company listed on the Main Board of the Stock Exchange, stock code: 0171) and an executive director of Jiangxi Copper Company Limited (a company listed on the Main Board of the Stock Exchange, stock code: 0358).

Company Secretary

Mr. Kwok Ka Yiu (郭家耀先生), aged 54, has been our company secretary and financial controller since 12 November 2007. Mr. Kwok holds an MBA degree from the University of Hong Kong and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Kwok has nearly seven years of audit experience in one of the prestigious international audit firms, KPMG and nearly twenty years of financial and accounting experiences with companies listed on the Stock Exchange.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board and senior management of the Company commit to maintain a high standard of corporate governance, formulate good corporate governance practice for improvement of accountability and transparency in operations, and strengthen the internal control system from time to time so as ensure to meet with the expectations of the Shareholders. The Company has adopted the corporate governance codes as set out in Appendix 14 "Corporate Governance Code and Corporate Governance Report" to the Listing Rules as its own code of corporate governance (the "CG Code").

During the Period, the Company has been in compliance with the CG Code, save for the following matters.

The Company did not establish a nomination committee and does not have a nomination policy as the Board takes up all functions of a nomination committee as required under the Listing Rules.

In respect of Code Provision A.2.1, the positions of the chairman of the Board (the "**Chairman**") and the president of the Company (the "**President**") are held by the same individual, namely, Mr. Cai Dong, following the resignation of Mr. Wang Bozhi as the Chairman and an ED on 30 October 2018. As Mr. Cai Dong has acted as the President and ED since 2007 and has deep understanding of the Group's businesses, the Board believes that holding the positions of both Chairman and President by Mr. Cai Dong provides the Group with strong and consistent leadership in the development and execution of long term business strategies, more effective planning and enhances efficiency in decision-making. In addition, under the supervision by the Board which currently consists of seven EDs, four NEDs and six INEDs, the interests of the shareholders of the Company will be adequately and fairly represented. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Code.

Furthermore, Code A.6.7 of the Code Provisions require that NEDs and INEDs should attend general meetings and develop a balanced understanding of the views of the Shareholders. Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees, Mr. Yang Weicheng, Dr. Wang Dengfeng, Mr. Zhao Hang and Mr. Liang Qing were unable to join 2018 AGM due to business commitments.

BOARD OF DIRECTORS

OVERALL ACCOUNTABILITY

The Board is accountable to the Shareholders. In discharging its corporate accountability, every Director is required to pursue excellence in the interests of the Shareholders and fulfill his/her fiduciary duties by applying the required level of skills, care and diligence to a standard in accordance with the statutory requirements.

CORPORATE GOVERNANCE REPORT

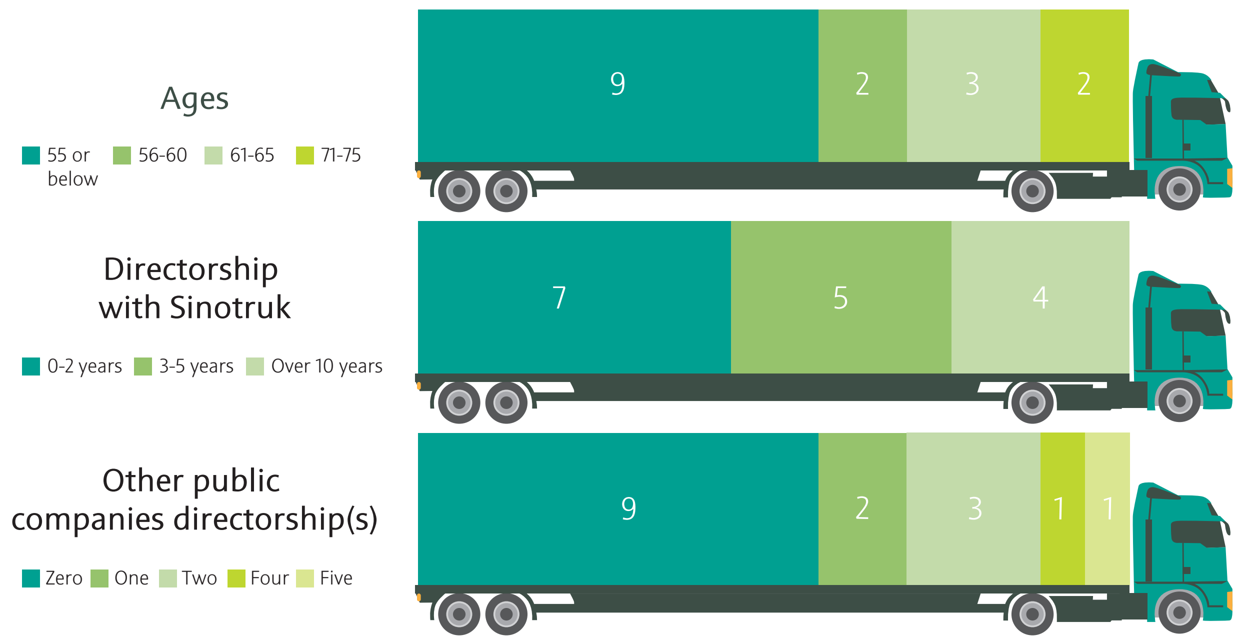
BOARD RESPONSIBILITIES AND DELEGATION

The Board is responsible for formulating group policies and business and strategic directions, establishing good corporate governance practices and procedures and monitoring risk management, internal controls and performances. The EDs and the Executive Committee are delegated with the responsibilities of the day-to-day management of the Group and making operational and business decisions within the control of and delegation framework of the Group. The NEDs and INEDs contribute valuable views and proposals for the Board's deliberation and decisions.

The Board has delegated some of its functions to the board committees, details of which are set out below. Matters specifically reserved to the Board include assessment on the nomination of new Directors, determination of remuneration of Directors and senior management, establishment of an effective risk management and internal control system, assessment on the effectiveness of the processes for financial reporting and of compliance of the Listing Rules, approval of financial statements, and review and approval of dividend policy, significant accounting policies, material contracts, significant appointments such as company secretary and external auditors, terms of reference of board committees, as well as major corporate policies such as code of conduct.

COMPOSITION OF THE BOARD

As at 31 December 2018, the Board had a total number of sixteen Directors including seven EDs, three NEDs and six INEDs. Biographies of each existing Director are set out in the section headed "Directors and Senior Management".



EXECUTIVE DIRECTORS

As at 31 December 2018, there were seven EDs including Mr. Cai Dong, Mr. Wang Shanpo, Mr. Liu Wei, Mr. Liu Peimin, Ms. Wan Chunling, Mr. Dai Lixin and Mr. Jörg Mommertz.

NON-EXECUTIVE DIRECTORS

As at 31 December 2018, there were three NEDs including Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees and Mr. Jiang Kui.

Each of Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees, Mr. Jiang Kui and Ms. Annette Danielski who was newly appointed as NED has entered into a service contract with the Company for a term of three years commenced from 1 October 2018, 1 October 2018, 30 October 2018 and 5 March 2019, respectively. Each of the service contracts of the NEDs can be terminated by either party giving not less than three months' prior written notice.

INDEPENDENT NON-EXECUTIVE DIRECTORS AND THEIR INDEPENDENCE

As at 31 December 2018, there were six INEDs including Dr. Lin Zhijun, Mr. Chen Zheng, Mr. Yang Weicheng, Dr. Wang Dengfeng, Mr. Zhao Hang and Mr. Liang Qing.

Each of Dr. Lin Zhijun, Mr. Chen Zheng, Mr. Yang Weicheng, Dr. Wang Dengfeng, Mr. Zhao Hang and Mr. Liang Qing has entered into a service contract with the Company for a term of three years commenced from 26 July 2016, 26 July 2016, 6 November 2016, 9 March 2019, 11 April 2019 and 1 September 2016, respectively. Each of the service contracts of the INEDs can be terminated by either party giving not less than three months' prior written notice.

With Dr. Lin Zhijun's past working experience as an auditor and his academic background in finance and accounting, the Company considers that Dr. Lin is a qualified person with appropriate professional knowledge in accounting and finance as required by Rule 3.10(2) of the Listing Rules.

The Company has already received annual confirmation letters of independence from all the INEDs for the Period and each of them has declared fulfillment of all the guidelines for assessing independence in accordance with Rule 3.13 of the Listing Rules. Accordingly, the Board considers that all INEDs are independent as defined in the Listing Rules.

The details of the changes of Directors can be found in the section heading "Report of the Directors" of this annual report.

CORPORATE GOVERNANCE REPORT

ATTENDANCE OF BOARD MEETINGS AND BOARD COMMITTEE MEETINGS

During the Period, details of each Director's attendance in the Board and committees meetings are set out below:

Directors	Regular full Board meetings	Executive Committee meetings	Strategy and Investment Committee meetings	Remuneration Committee meetings	Audit Committee meetings	2018 annual general meeting
	Numbers of meetings attended/entitled to attend (Note)					
Executive Directors						
Mr. Cai Dong	4/4	3/3	1/1			0/1
Mr. Wang Shanpo	4/4	3/3	1/1			0/1
Mr. Liu Wei	4/4	3/3		0/0		0/1
Mr. Liu Peimin	2/4	3/3				0/1
Ms. Wan Chunling	2/2	1/1				0/0
Mr. Dai Lixin	2/2	1/1				0/0
Mr. Jörg Mommertz	2/2	0/1	1/1			0/0
Non-executive Directors						
Mr. Andreas Hermann Renschler	0/4					0/1
Mr. Joachim Gerhard Drees	4/4					0/1
Mr. Jiang Kui	2/2					0/0
Independent Non-executive Directors						
Dr. Lin Zhijun	4/4			0/0	3/3	1/1
Mr. Chen Zheng	4/4			0/0	3/3	1/1
Mr. Yang Weicheng	4/4			0/0		0/1
Dr. Wang Dengfeng	4/4				3/3	0/1
Mr. Zhao Hang	4/4		1/1			0/1
Mr. Liang Qing	4/4			0/0		0/1
Former Directors						
Mr. Wang Bozhi	1/2	2/2	0/0			1/1
Mr. Tong Jingen	2/2	2/2		0/0		1/1
Mr. Kong Xiangquan	2/2	2/2				1/1
Mr. Franz Neundlinger	1/1	0/1	0/0			1/1
Mr. Matthias Gründler	1/1					0/0

Note: Certain Directors resigned or were appointed as Directors during the Period and the numbers of the relevant meetings entitled to attend were adjusted accordingly.

BOARD MEETINGS

The Company generally convenes four regular full Board meetings per year or more meetings when necessary.

During the Period, four regular full Board meetings were convened to review, consider and approve the following major agenda items:

(1) the 2017 annual report of the Company and related results announcements, circulars and documents, the 2017 ESG Report, the call for the 2018 AGM of the Company and the closures of register of members;

(2) the annual review of the effectiveness and adequacy of the Group's risk management and internal control systems;

(3) the review on non-competition undertaking of CNHTC;

(4) the 2018 interim report of the Company and related results announcements and documents;

(5) the review of the connected transactions for the year 2017 and approval of certain new, renewed and amended connected transactions for the years 2018-2021;

(6) the recommendation of the re-appointment of PricewaterhouseCoopers as the Company's auditor and the re-election of the retiring Directors in the 2018 AGM;

(7) the recommendation of the payment of the final dividend for the year 2017;

(8) the operational and financial reports of the Group;

(9) the operational plan, financial budget and capital expenditure budgets of the Group;

(10) matters raised by the Audit Committee including the assessment of internal control report, the risk management report and ESG Report; and

(11) incentive policy for senior management and core employees.

BOARD COMMITTEES

The Board has set up the Executive Committee, the Strategy and Investment Committee, the Remuneration Committee and the Audit Committee to deal with different businesses and matters. Details of different committees are discussed below.

EXECUTIVE COMMITTEE

The Executive Committee has been formed by all the EDs as appointed from time to time and is responsible for implementing the decisions made by the Board including but not limit to financing operations, operating strategies, business development, etc. and managing daily operations and the effectively implementing corporate strategy and policies.

As at 31 December 2018, the Executive Committee comprised seven members, namely, Mr. Cai Dong, Mr. Wang Shanpo, Mr. Liu Wei, Mr. Liu Peimin, Ms. Wan Chunling, Mr. Dai Lixin and Mr. Jörg Mommertz. Mr. Cai Dong is the chairman of the Executive Committee.

During the Period, the Executive Committee had convened three meetings to consider and approve the following major agenda items:

(1) the operation and financial reports of the Group; and

(2) the product quality improvement measures and their implementation.

CORPORATE GOVERNANCE REPORT

STRATEGY AND INVESTMENT COMMITTEE

The Strategy and Investment Committee is mainly responsible for the formulation of medium and long term strategic plans and business development strategies of the Group including the study and recommendation of significant investment financing initiatives and significant capital operations and asset operation projects.

As at 31 December 2018, the Strategy and Investment Committee comprised four members, namely, Mr. Cai Dong, Mr. Wang Shanpo, Mr. Jörg Mommertz and Mr. Zhao Hang. Mr. Cai Dong, Mr. Wang Shanpo and Mr. Jörg Mommertz are EDs. Mr. Zhao Hang is an INED. Mr. Cai Dong is the chairman of the Strategy and Investment Committee.

During the Period, the Strategy and Investment Committee had convened one meeting and had discussed, reviewed and approved the following major agenda items:

(1) the principles of technology upgrade and improvements in 2019 and their investment plans; and

(2) the 2019 capital expenditure plan.

REMUNERATION COMMITTEE

The Remuneration Committee is mainly responsible for the appraisal of the Directors and senior management performance and making recommendation to the Board on their remuneration including the formulation of performance assessment standards, procedures, major proposals and mechanisms of the assessment systems, rewards and penalties. The Remuneration Committee will also supervise the remuneration and other benefits offered by the Group to the Directors.

As at 31 December 2018, the Remuneration Committee comprised five members, namely, Mr. Chen Zheng, Dr. Lin Zhijun, Mr. Yang Weicheng, Mr. Liang Qing and Mr. Liu Wei. Mr. Chen Zheng, Dr. Lin Zhijun, Mr. Yang Weicheng and Mr. Liang Qing are INEDs while Mr. Liu Wei is ED. Mr. Chen Zheng is the chairman of the Remuneration Committee. The most up-to-date version of the terms of reference of the Remuneration Committee is available on the websites of the Company and the Stock Exchange.

During the Period, the Remuneration Committee did not convene meeting but had reviewed the draft supplement service contract of Mr. Cai Dong, the draft service contracts for newly appointed EDs and draft appointment letter for newly appointed NED and recommended those agreements and letters to the Board for approval.

AUDIT COMMITTEE

The Audit Committee is mainly responsible for reviewing and monitoring the financial control, internal control, risk management systems, including reassessment of the financial and accounting policies, review of interim reports, annual reports and financial statements, review of the risk management and internal control systems, the effectiveness of the internal audit function, etc. In addition, the Audit Committee is responsible for the appointment, re-appointment and removal of external auditor, and for reporting to the Board on the recommendation, review and supervision of the external auditor in respect of its independence and objectivity, the effectiveness of the audit procedures, the formulation of policies on the provision of non-audit services by the external auditor, the handling of any issues related to the resignation of auditor or the removal of such auditor and the communication with the external auditor on auditing matters. The most up-to-date version of the terms of reference of the Audit Committee is available on the websites of the Company and the Stock Exchange.

As at 31 December 2018, the Audit Committee comprised three members, namely, Dr. Lin Zhijun, Mr. Chen Zheng and Dr. Wang Dengfeng who are all INEDs. Dr. Lin Zhijun is the chairman of the Audit Committee.

During the Period, the Audit Committee had convened three meetings and had discussed, reviewed and approved the following major agenda items:

(1) the 2018 annual audit plan of the Group;

(2) the auditor's reports to the Audit Committee in respect of the 2017 annual audit and the 2018 interim review of the Group;

(3) the 2017 annual report and the 2018 interim report and their related preliminary results announcements;

(4) the re-appointment of auditor of the Company;

(5) the assessment of the financial reporting system of the Group;

(6) the self-assessment of internal controls and the internal control system of the Group; and

(7) the half-year and annual internal control reports and the risk management report of the Group.

In additional to review and approve the above agenda items, the Audit Committee had directly communicated with the management regarding the performance and key risk areas of the Group, the relevant internal controls etc.

CORPORATE GOVERNANCE FUNCTIONS

The Audit Committee is also responsible for performing the corporate governance functions including the following corporate governance duties:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management of the Company;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and the Directors; and
- to review the Company's compliance with the Code Provisions ("Code Provisions") as set out in Appendix 14 of the Listing Rules and disclosure in the Corporate Governance Report in the annual report of the Company.

NOMINATION, APPOINTMENT, RETIREMENT AND RE-ELECTION OF DIRECTORS

The Board is responsible for reviewing its structure, size, composition (including the skills, knowledge and experience) and diversity regularly and making any changes to complement the Company's corporate strategy, including the selection of individuals nominated for directorships, the appointment or re-appointment of Directors, succession planning for Directors and accessing the independence of independent non-executive Directors. During the Period, the Board has reviewed and concluded that its existing structure, size, composition and diversity are appropriate. The Board currently does not have a nomination policy in place.

According to article 82 of the Articles, any Director appointed by the Board to fill a casual vacancy or by way of addition to their number shall hold office only until the next following annual general meeting of the Company, and shall then be eligible for re-appointment. According to article 83(1) of the Articles, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

DIVERSITY POLICY AND NOMINATION PROCEDURES

The Company recognises and embraces the importance and benefit to achieve diversity on the Board to corporate governance and the board effectiveness. The diversity policy is to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance.

Without the establishment of nomination committee, the Board has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to the diversity policy in selection of board candidates. Selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

DIVIDEND POLICY

For the financial year ended 31 December 2018, the Company does not have a dividend policy in place.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Appendix 10 - Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules as the code of conduct for securities transactions by the Directors (the "**Model Code**"). The Company has made specific enquiries with all Directors and all Directors confirm that they have complied with the standards required by the Model Code during the Period.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors have kept abreast of their responsibilities as Directors and of the conduct, business activities and development of the Company. Directors are continuously updated with regulatory and governance developments.

Directors are encouraged to participate in professional development courses and seminars to develop and refresh their knowledge and skills. The Company has devised a training record to assist the Directors to record the training they have undertaken. In addition, the Company will reimburse Directors any reasonable costs incurred for the attendance of these professional development courses and seminars.

In December 2018, the Company had provided "Training on Inside Information Provisions and Connected Transactions" training materials prepared by Sidley Austin, legal advisers on Hong Kong laws, to all Directors. Each of Mr. Cai Dong, Mr. Wang Shanpo, Mr. Liu Wei, Mr. Liu Peimin, Ms. Wan Chunling, Mr. Dai Lixin, Mr. Jörg Mommertz, Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees, Mr. Jiang Kui, Dr. Lin Zhijun, Mr. Chen Zheng, Mr. Yang Weicheng, Dr. Wang Dengfeng, Mr. Zhao Hang and Mr. Liang Qing has confirmed in writing he/she had participated in continuous professional developments to develop and refresh their knowledge and skills as directors during the Period by way of reading the training materials prepared by Sidley Austin. In addition, each of Ms. Wan Chunling, Mr. Dai Lixin, Mr. Jörg Mommertz and Mr. Jiang Kui had attended a training on director's responsibilities provided by Sidley Austin in relation to her/his appointment as Director during the Period.

REMUNERATION AND BENEFITS FOR DIRECTORS AND SENIOR MANAGEMENT

For NEDs and INEDs, their remuneration paid to each of them is a director fee only. Apart from basic salaries, EDs are also entitled to year-end bonus, which are depended on the market conditions, and performance of the Group and individual persons during the Period. In addition, the Company has adopted a new incentive policy for senior management and core employees during the Period, under which all executive Directors may be entitled such incentive.

ACCOUNTABILITY AND AUDITING

The Directors are responsible for preparing the financial statements for the financial year ended 31 December 2018 to reflect a true and fair view of the Company's and the Group's financial conditions and results and cash flows during the year.

In preparing the financial statements for the year ended 31 December 2018, the generally accepted accounting principles in Hong Kong, Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards are adopted, with consistent use of appropriate accounting policies, for making reasonable and prudent judgments and estimates. The financial statements for the year ended 31 December 2018 were prepared on a going concern basis.

The reporting responsibilities of the auditors are set out in the Independent Auditor's Report in this annual report.

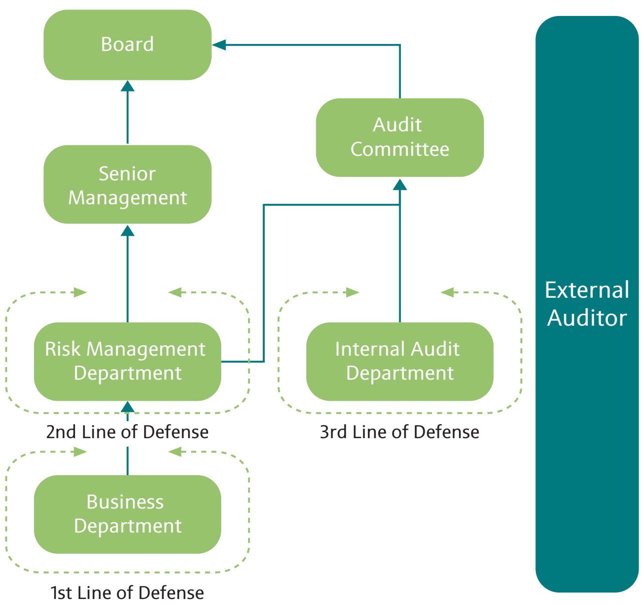
RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the maintenance of a stable and effective risk management and internal control systems for the Group and also responsible for reviewing their effectiveness. The Board, with the assistance from the Audit Committee, conducted annual review on the effectiveness of the Group's risk management and internal control systems as required by the Code Provisions, covering financial, operational and compliance controls and risk management functions, and including reviews on the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial report function for the Period and considered they were effective and adequate.

The Company has established an organizational structure with defined levels of responsibility and reporting procedures. The risk management department and the group internal audit department assist the Board and/or the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The Directors through these departments are kept regularly apprised of significant risks that may impact on the Group's performance.

The Company has established "Overall Risk Management Procedures"《全面風險管理制度》to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group's risk management framework is guided by the following model as shown below:



CORPORATE GOVERNANCE REPORT

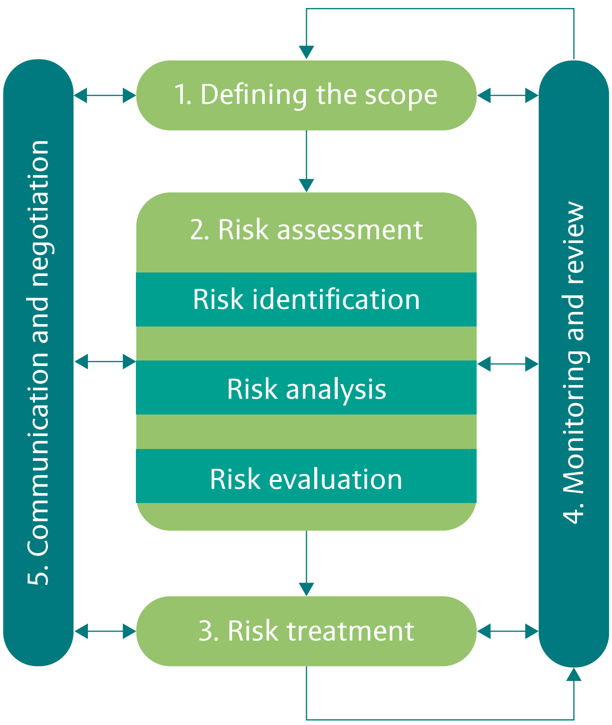
Senior management is responsible for reviewing the establishment of the overall risk management organization and the definition of the responsibilities, approving the annual risk management work plan and supervising its implementation, reviewing the development, implementation and adjustment of significant risk reaction programs, determining the key risk monitoring indicators, decompositing these indicators and reviewing risk management related systems and significant risk management policies.

The internal audit department is responsible for assessing, reviewing the effectiveness of risk management processes and systems, assessing whether risk is properly assessed, assessing significant risk reporting, and reviewing significant risk management.

The risk management department is responsible for establishing the risk management organization and defining responsibilities, procedures and system of risk management, formulating the annual risk management work plan, carrying out risk assessment, proposing the risk management strategy, assisting the relevant departments carrying out significant risk management. It also prepares risk management performance appraisal program and conducts annual performance appraisal and arranges risk management training.

Business units identify, analyze and evaluate their business risks and identify significant risks, develop risk management strategies, solutions and crisis management plans for significant risks, dynamically monitor significant risk associated indicators and execute the procedures and policies of the risk management and internal controls of the Group.

The Group adopts the principles of "ISO 31000:2009 Risk Management - Principles and Guidelines" as its approach to manage its business and operational risks. The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:



1 Group risk management department establishes common risk terminology, risk definition, risk assessment criteria and risk classification.

2 Business units carry out internal and external information collection, conduct risk assessment based on the standard and develop response action plans. Through the comprehensive evaluation of significant risks, pre-event, during the event and after-event plans and crisis management plans are formulated.

3 Business units, based on established procedures, carry out risk assessment and execute significant risk management programs and regularly report to the group risk management department about the progress.

4 and 5 Group risk management department monitors the risk management status of the business units and reports the relevant information to the Audit Committee on a regular basis.

Group risk management department is responsible for negotiation and coordination of risk management tasks over different departments and business units, and reporting risk information.

Group internal audit department reviews the effectiveness of risk management, and the assessment and management of significant risks.

The Company has incorporated its risk management systems into the core operating practices of the business. On an ongoing basis, the respective business units review and assess the status of potential risks which may impact on their ability to achieve their business objectives and/or those of the Company. The business units report to their risk management department on the changes in the significant risk management and the related indicators on a quarterly basis. The group risk management department conducts a risk assessment on a regular basis and reports to the Audit Committee on the significant risk management of the Group and the implementation of the risk response measures at each regular meeting.

The Executive Committee had provided the Board the written confirmation that the risk management and internal controls were effective during the Period. The Executive Committee also confirmed that the Group had properly complied with the internal control procedures over the connected transactions including but not limit to the pricing of the transactions and not exceeding their caps and the internal audit department had regularly reviewed the internal controls systems including connected transactions and did not identify any significant issues during the Period.

The Board confirmed that the risk management system and internal control systems of the Group were effective and that there were no significant risk events occurred during the Period.

The internal audit department of the Group and each subsidiary are responsible for carrying out internal audit. They review the material controls of the Group on a continuous basis and aim to cover all major operations of the Group on a cyclical basis. Overall, internal audits are designed to provide the Board with reasonable assurance that the internal control systems of the Group are sound and effective.

In addition to the review of risk management and internal controls undertaken within the Group, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made.

In addition, Ji'nan Truck Company appointed PricewaterhouseCoopers Zhong Tian LLP ("PWC Zhong Tian") to express audit opinion on the effectiveness of internal controls in its financial reports. PWC Zhong Tian opined that Ji'nan Truck Company had maintained the effective internal controls in its financial reports in all material aspects under "Basic Standard for Enterprise Internal Control" and the relevant regulations as at 31 December 2018.

The investment management and securities department of the Group is responsible for handling and dissemination of inside information. The Company has established "Disclosure of Inside Information Policy"《內幕信息披露制度》and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved and made, while the dissemination of such information is efficiently and consistently made. The Company regularly communicates with relevant employees about the status of the implementation of the inside information disclosure policies and provides them the relevant trainings.

NON-COMPETITION UNDERTAKING

In order to protect the Group's interests, CNHTC entered into a non-competition undertaking (the "Non- competition Undertaking") with the Group in November 2007. The Board has received an annual confirmation from CNHTC for its compliance with the Non-competition Undertaking for the year ended 31 December 2018. After conducting the review, the Directors, including all INEDs, are of the view that the Non-competition Undertaking have been complied with by all parties.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF AUDITORS

For the Period, details of the remuneration paid or payable to the Group's auditors, PricewaterhouseCoopers and its related entities are as follows:

	RMB'000
For financial audit services:	10,000
For other services:	
internal control audit of services for a subsidiary	500
taxation professional services	300
environment, social and governance report reporting services	200
Total fee for other services	1,000
Auditors' remuneration	11,000

COMPANY SECRETARIES

The company secretary of the Company ("Company Secretary"), Mr. Kwok Ka Yiu, has confirmed that he has attended not less than 15 hours of relevant professional training during the Period. His biographies are set out in the section headed "Directors and Senior Management" in this annual report. Mr. Tong Jingen (also a former ED) resigned as Company Secretary on 30 October 2018.

CHANGES IN DIRECTORS' INFORMATION

Mr. Zhao Hang, an INED, has been appointed as an independent director of Shanghai Baolong Automotive Corporation (a company listed on the Shanghai Stock Exchange, stock code: 603197) on 30 December 2016, a chairman of Zhongfalian Investment Co., Ltd. (中發聯投資有限公司) (an unlisted company) on 16 May 2017, an independent director of Hainan Drinda Automotive Trim Co., Ltd. (海南鈞達汽車飾件股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002865) on 26 October 2018 and an independent director of SG Automotive Group Co., Ltd. (遼寧曙光汽車集團股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600303) on 29 October 2018. In addition, Mr. Zhao Hang retired as a director of Zhejiang Wanfeng Auto Wheel Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002085) on 27 February 2017.

SHAREHOLDERS AND INVESTOR RELATIONS

COMMUNICATION POLICY

The Board considers that active communications with investors are important and provides reports with transparency and clarity in disclosures. Any significant events of the Group fall to be disclosed will be published in a timely, accurate and complete manner through the websites of the Company and the Stock Exchange, so as to safeguard Shareholders' rights of information and participation. Ji'nan Truck Company publishes its announcements in the designed website as required by the regulations of the Shenzhen Stock Exchange. The Company announces the latest financial information of Ji'nan Truck Company from time to time on the websites of the Company and the Stock Exchange.

The notice of the AGM together with relevant documents will be sent out to the Shareholders at least 20 business days prior to the date on which the AGM will be held and at least 10 business days prior to the date on which all other general meetings will be held. The notice contains details on the procedures for voting by poll as well as other relevant information related to the proposed resolutions.

Sinotruk's website has been adopted as the designated company website for publication of the Company's announcements, notices and other corporate communications. As at 31 December 2018, about 90.8 per cent of registered Shareholders in Sinotruk's register of the members did not opt to receive corporate communications via print version.

SHAREHOLDING ANALYSIS

Based on publicly available information and within the Directors' knowledge as at the date of this annual report, approximately 24 per cent of Sinotruk's shares were held by the public.

The major shareholders of the Company are CNHTC and FPFPS. CNHTC is a PRC state-owned commercial vehicles manufacturing enterprise and indirectly holds 51% of the entire issued capital of the Company. FPFPS indirectly holds 25% of the entire issued share capital of the Company plus one Share. The FPFPS Group, comprising Volkswagen Group, is one of the world's leading automobile manufacturers in commercial vehicles and passenger cars. Volkswagen Group comprises of twelve brands from seven European countries: Volkswagen Passenger Cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN.

The Company's market capitalisation and shareholding distribution as at 31 December 2018 are set out in the section headed "Shareholder Information" of this annual report.

INVESTOR RELATIONS

The investment management and securities department of the Group is responsible for promoting investor relations, enhancing communications and ensuring that the investors are able to obtain information about the Group on a fair and timely basis to assist them in making the best investment decisions. For cultivating good relationship with Shareholders and potential investors, the Company has participated in a number of one-on-one meetings, investors' conferences, road shows and site visits during the Period. Analysts and fund managers may enrich their knowledge on the production operations of the Group through these activities. Investors and the public may also browse the website of the Company at www.sinotruk.com for the latest information available in respect of the Group including information on the financial conditions and the latest business developments of the Group.

ANNUAL GENERAL MEETING

The Board and senior management are well aware of their important tasks of acting on behalf of the interests of all the Shareholders and raising the Shareholders' returns. The Board considers that AGM is an important opportunity for direct communication with the Shareholders. The 2018 AGM at which the external auditors attended was convened on 27 June 2018.

The Board encourages all the Shareholders to participate in the forthcoming 2019 AGM where the members of the Board and external auditors will be present and communicate with the Shareholders.

SHAREHOLDERS' RIGHTS

(1) Procedures for Shareholders to convene a general meeting

Any one or more Shareholders holding at the date of deposit of the Requisition (as defined below) at least 5% of the total voting rights of all Shareholders having rights to vote at general meetings of the Company (the "Requisitionist(s)") shall at all times have the right, by requisition (the "Requisition") to the Board or the Company Secretary to convene a general meeting.

The Requisition must state the business to be dealt with at the general meeting. It must also be authenticated by such Requisitionist(s) and either deposited at the registered office of the Company (the "Registered Office") at Units 2102-2103, China Merchants Tower, Shun Tak Centre, 168- 200, Connaught Road Central, Hong Kong or by email to generalmeeting@sinotrukhk.com for attention of the "Company Secretary".

If the Directors does not within 21 days from the date of the deposit of the Requisition proceed duly to convene a meeting for a day not more than 28 days after the date on which notice convening the meeting is given, such Requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting in accordance with the relevant provisions of the Companies Ordinance, but any meeting so convened shall not be held after the expiration of 3 months from the said date.

(2) Procedures for putting forward proposals at Shareholders' meeting

Eligible Shareholders may submit a request to make proposals or move a resolution at the general meeting (the "Request"). "Eligible Shareholder(s)" means:

(i) any number of Shareholders representing at least 2.5% of the total voting rights of all Shareholders having at the date of the Request a right to vote at the general meeting to which the Request relates; or

(ii) at least 50 Shareholders who have a right to vote at the general meeting to which the Request relates.

The Request must state clearly the name(s) and contact information of the Eligible Shareholders, his/her/their shareholding, the proposed resolution, accompanied by a statement (the "Statement") of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the proposed business to be dealt with at the general meeting.

The Request and the Statement must be authenticated by the Eligible Shareholder(s) making the Request and either deposited at the Registered Office or by email to resolutionrequest@sinotrukhk.com for the attention of the "Company Secretary" at least six (6) weeks before the AGM to which the Request relates; or if later, the time at which notice is given of that AGM, and in all other cases, at least seven (7) days before the general meeting to which the Request relates.

The Eligible Shareholder(s) need not pay the circulation of the Statement if the Request and the Statement have been duly received by the Company and been sent together with notice of the AGM. In all other cases, the Eligible Shareholder(s) concerned shall deposit a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution, a circular or a supplemental circular (as the case may be) concerned together with the Statement at least seven (7) days before the general meeting to which the Request relates in accordance with the Companies Ordinance and the requirements under the Listing Rules to all the Shareholders.

(3) Shareholders' enquiries to the Board

Shareholders may send their enquiries and concerns together with their names and contact information to the Board by addressing them to the Registered Office of the Company by post or email to boardenquiries@sinotrukhk.com for the attention of the "Company Secretary". The Board will reply the enquiries and concerns as soon as possible.

CONSTITUTIONAL DOCUMENTS

There has been no changes to the Articles during the Period.

DISCLAIMER

The contents of the section headed "Shareholders' Rights" are for reference and disclosure compliance purposes only. The information does not represent and should not be regarded as legal or other professional advice from the Company to the Shareholders. Shareholders should seek their own independent legal or other professional advice as to their rights as Shareholders. The Company disclaims all liabilities and losses incurred by the Shareholders in reliance on any contents of the section headed "Shareholders' Rights".

REPORT OF THE DIRECTORS

The Directors are pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL BUSINESS

The Company is principally engaged in investment holding. The Group primarily specialises in the research, development and manufacturing of HDTs, LDTs and related key parts and components, including engines, cabins, axles, steel frames and gearboxes as well as provision of financing services to those parties related to the production and sales of the Group's products and to the CNHTC Group. Details of principal activities of the Company's subsidiaries are set out in Note 10 to the consolidated financial statements.

An analysis of the Group's performance for the Period by operating segments is set out in Note 5 to the consolidated financial statements. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including an analysis of the Group's performance during the Period using financial key performance indicators, a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the section heading "Management Discussion and Analysis" of this annual report. This discussion forms part of this report of the Directors.

OPERATING RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and consolidated statement of comprehensive income.

PROPOSED DIVIDENDS

The Board recommends the payment of a final dividend of HKD0.64 per Share for the year ended 31 December 2018 (the "2018 Final Dividend") with a sum of approximately HKD1,767,036,000, which is subject to shareholders' approval at the forthcoming 2019 AGM.

The Company has been determined as a Chinese-resident enterprise. Pursuant to the "Enterprise Income Tax Law of the PRC"《中華人民共和國企業所得稅法》and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the PRC"《中華人民共和國企業所得稅法實施條例》, a Chinese-controlled offshore incorporated enterprise shall withhold and pay enterprise income tax for its non-PRC resident enterprise shareholders. As the withholding and payment obligation lies with the Company, the Company will withhold and pay enterprise income tax for its non-PRC resident enterprise shareholders to whom the Company pays the 2018 Final Dividend.

In respect of all the Shareholders whose names are not registered as natural persons (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organisations, which are all considered as non-PRC resident enterprise shareholders), the Company will distribute the 2018 Final Dividend after deducting an enterprise income tax of 10% or other appropriate rates.

The Company will not withhold and pay the income tax in respect of the 2018 Final Dividend payable to PRC resident enterprise shareholders, exempted entities or any natural person shareholders.

PRINCIPAL PROPERTIES

Details of the principal properties held for development and/or sale and for investing purposes are set out in Note 16 to the consolidated financial statements.

SHARE ISSUED DURING THE PERIOD

There were no issue of shares during the Period. Details of the movements in the equity of the Company during the Period are set out in the consolidated statement of changes in equity and Note 39 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's distributable reserves as at 31 December 2018, calculated under Part 6 of the Companies Ordinance, were approximately RMB1,578,977,000 (2017: RMB1,847,918,000).

CHARITABLE DONATIONS

The Group's total charitable and other donations for the Period amounted to approximately RMB298,000 (2017: RMB4,401,000).

BORROWINGS

Details of the Group's borrowings as at 31 December 2018 are set out in Note 28 to the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 212.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its Shares during the Period. Neither the Company nor any of its subsidiaries has purchased or sold any Shares during the Period.

SHARE OPTIONS

The Company did not have share option scheme as at 31 December 2018.

DIRECTORS

During the Period and up to the last practicable date of publishing this report, the Directors were as follows:

EXECUTIVE DIRECTORS:

Mr. Cai Dong *(Chairman and President)*
Mr. Wang Shanpo
Mr. Liu Wei
Mr. Liu Peimin
Mr. Dai Lixin (appointed on 30 October 2018)
Mr. Sun Chenglong (appointed on 29 January 2019)
Mr. Jörg Mommertz (appointed on 30 October 2018)

NON-EXECUTIVE DIRECTORS:

Mr. Andreas Hermann Renschler
Mr. Joachim Gerhard Drees
Mr. Jiang Kui (appointed on 30 October 2018)
Ms. Annette Danielski (appointed on 5 March 2019)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Lin Zhijun
Mr. Chen Zheng
Mr. Yang Weicheng
Dr. Wang Dengfeng
Mr. Zhao Hang
Mr. Liang Qing

RESIGNED DIRECTORS:

Mr. Wang Bozhi (resigned on 30 October 2018)
Mr. Tong Jingen (resigned on 30 October 2018)
Mr. Kong Xiangquan (resigned on 30 October 2018)
Ms. Wan Chunling (appointed on 30 October 2018 and resigned on 29 January 2019)
Mr. Franz Neundlinger (resigned on 30 August 2018)
Mr. Matthias Gründler (resigned on 1 June 2018)

Each of Mr. Matthias Gründler, Mr. Franz Neundlinger, Mr. Wang Bozhi, Mr. Tong Jingen, Mr. Kong Xiangquan and Ms. Wan Chunling has confirmed that he/she has no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the Shareholders.

REPORT OF THE DIRECTORS

On 29 January 2019, Mr. Sun Chenglong was appointed as an ED and on 5 March 2019, Ms. Annette Danielski was appointed as a NED.

Pursuant to article 82 of the Articles, Mr. Dai Lixin, Mr. Sun Chenglong, Mr. Jörg Mommertz, Mr. Jiang Kui and Ms. Annette Danielski will be retired at the forthcoming annual general meeting and, being eligible, will be available for re-election as Directors. Pursuant to article 83(1) of the Articles, Mr. Cai Dong, Mr. Andreas Hermann Renschler, Mr. Joachim Gerhard Drees, Dr. Lin Zhijun and Mr. Zhao Hang will be retired at the forthcoming annual general meeting and, being eligible, will be available for re-election as Directors.

DIRECTORS OF THE COMPANY'S SUBSIDIARIES

During the Period and up to the date of this report, Mr. Cai Dong, Mr. Liu Wei, Mr. Liu Peimin, Mr. Dai Lixin, Mr. Sun Chenglong, Mr. Jiang Kui and, former EDs, Mr. Kong Xiangquan and Ms. Wan Chunling are also directors in certain subsidiaries of the Company. Former EDs, Mr. Wang Bozhi and Mr. Tong Jingen were directors in certain subsidiaries during the Period but were not directors of any subsidiary of the Company as at the date of this report.

A full list of the names of the directors of the Company's subsidiaries can be found in the Company's website at www.sinotruk.com under "Investor Relations" • "Corporate" • "Board of directors".

PERMITTED INDEMNITY

Pursuant to the Articles, subject to the statues, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in the execution of his/her office or otherwise in relation thereto. Subject to the applicable laws and the Articles, the Company has taken out insurance against the liability and costs associated with legal actions against the Directors arising out of corporate activities.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has or is proposed to have any service contract with the Company or its subsidiary that is not terminable by the employer within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS AND COMPETING BUSINESS

During the Period, Mr. Wang Bozhi was the chairman of CNHTC; Ms. Wan Chunling is the chief accountant and a director of CNHTC; Mr. Jiang Kui is a non-executive director of Weichai Power; Mr. Andreas Hermann Renschler is a member of the board of management of Volkswagen AG, responsible for the brand group "Truck & Bus", chief executive officer of TRATON SE (formerly Volkswagen Truck & Bus GmbH) and a member of the board of directors of the Navistar International Corporation; Mr. Joachim Gerhard Drees has been the chief executive officer and a member of the executive board of MAN Truck & Bus AG, a member of the executive board of TRATON SE (formerly Volkswagen Truck & Bus GmbH), the chief executive officer and chairman of executive board of MAN SE; Mr. Jörg Mommertz is the chairman and managing director of MAN Trucks India; Mr. Matthias Gründler was a member of the board and the chief financial officer at Volkswagen Truck & Bus GmbH, and a member of the board of directors of the Navistar International Corporation; Mr. Franz Neundlinger was employed by MAN Truck & Bus Österreich GesmbH (formerly MAN Truck & Bus Österreich AG). Volkswagen AG, TRATON SE (formerly Volkswagen Truck & Bus GmbH), MAN SE, MAN Truck & Bus AG, MAN Trucks India and MAN Truck & Bus Österreich GesmbH (formerly MAN Truck & Bus Österreich AG) are non-wholly owned subsidiaries of FPFPS. The FPFPS Group held approximately 16.9% of the issued share capital of Navistar International Corporation.

Save for transactions amongst group members, between the Group and the CNHTC Group and between the Group and the FPFPS Group as disclosed in section headed "connected transactions" below in the report of the Directors and in the related party transactions in note 38 to the consolidated financial statements, no other transactions, arrangements and contracts of significance to which the Company' subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

The manufacture and sales of trucks and bus activities of the CNHTC Group, Weichai Power, Volkswagen AG, TRATON SE (formerly Volkswagen Truck & Bus GmbH), MAN SE, MAN Truck & Bus AG, MAN Truck India, MAN Truck & Bus Österreich GesmbH (formerly MAN Truck & Bus Österreich AG) and Navistar International Corporation constitute competing businesses to the Group.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 31 to 38.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the directors and chief executives of the Company and their associates (as defined in the Listing Rules) had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

ASSOCIATED CORPORATION

Ordinary shares in Ji'nan Truck Company – subsidiary of the Company

Long positions

Name of Director	Nature of interest	Number of ordinary shares held	Percentage of shareholding
Mr. Cai Dong	Family interest	18,900	0.0028%
Ms. Wan Chunling	Beneficial interest	69,200	0.0103%

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company or their associates (as defined in the Listing Rules) had interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, other than the interests of the Directors and chief executives of the Company as disclosed above, the Company has been notified of the following interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO:

A) THE COMPANY

Long position

Name of Shareholder	Nature of interests	Note	Number of Shares held	Approximate percentage of shareholding
CNHTC	Corporate interests	(a)	1,408,106,603	51%
Sinotruk (BVI) Limited	Beneficial interest		1,408,106,603	51%
FPFPS	Corporate interests	(b)	690,248,336	25%
Ferdinand Porsche Familien-Holding GmbH	Corporate interests	(c)	690,248,336	25%
Ferdinand Alexander Porsche GmbH	Corporate interests	(d)	690,248,336	25%
Familie Porsche Beteiligung GmbH	Corporate interests	(e), (j)	690,248,336	25%
Porsche Automobil Holding SE	Corporate interests	(f), (k)	690,248,336	25%
Volkswagen AG	Corporate interests	(g)	690,248,336	25%
TRATON SE (formerly Volkswagen Truck & Bus GmbH)	Corporate interests	(h), (l)	690,248,336	25%
MAN SE	Corporate interests	(i)	690,248,336	25%
MAN Finance and Holding S.A. (formerly MAN Finance and Holding S.A.R.L.)	Beneficial interests		690,248,336	25%

REPORT OF THE DIRECTORS

Notes:

(a) CNHTC holds the entire issued share capital of Sinotruk (BVI) Limited. CNHTC is deemed to have interest in all the Shares held (or deemed to be held) by Sinotruk (BVI) Limited under the SFO.

(b) FPFPS holds 90% interest in Ferdinand Porsche Familien-Holding GmbH. FPFPS is deemed to have interest in all the Shares held (or deemed to be held) by Ferdinand Porsche Familien-Holding GmbH under the SFO.

(c) Ferdinand Porsche Familien-Holding GmbH holds 73.85% interest in Ferdinand Alexander Porsche GmbH. Ferdinand Porsche Familien-Holding GmbH is deemed to have interest in all the Shares held (or deemed to be held) by Ferdinand Alexander Porsche GmbH under the SFO.

(d) Ferdinand Alexander Porsche GmbH holds 100% interest in Familie Porsche Beteiligung GmbH. Ferdinand Alexander Porsche GmbH is deemed to have interest in all the Shares held (or deemed to be held) by Familie Porsche Beteiligung GmbH under the SFO.

(e) Familie Porsche Beteiligung GmbH holds 51.69% interests in Porsche Automobil Holding SE. Familie Porsche Beteiligung GmbH is deemed to have interest in all the Shares held (or deemed to be held) by Porsche Automobil Holding SE under the SFO.

(f) Porsche Automobil Holding SE holds 50.73% interest in Volkswagen AG. Porsche Automobil Holding SE is deemed to have interest in all the Shares held (or deemed to be held) by Volkswagen AG under the SFO.

(g) Volkswagen AG holds 100% interest in TRATON SE. Volkswagen AG is deemed to have interest in all the Shares held (or deemed to be held) by TRATON SE under the SFO.

(h) TRATON SE holds 75.28% interest in MAN SE. TRATON SE is deemed to have interest in all the Shares held (or deemed to be held) by MAN SE under the SFO.

(i) MAN SE holds 100% interest in MAN Finance and Holding S.A. MAN SE is deemed to have interest in all the Shares held (or deemed to be held) by MAN Finance and Holding S.A. under the SFO.

(j) Notwithstanding the information recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO, the Company has been informed that, as at 31 December 2018, Famille Porsche Beteiligung GmbH held a 27.73% interest in the capital of Porsche Automobil Holding SE and had a voting interest of 55.46% in this entity.

(k) Notwithstanding the information recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO, the Company has been informed that, as at 31 December 2018, Porsche Automobil Holding SE held a 30.80% interest in the capital of Volkswagen AG and had a voting interest of 52.20% in this entity.

(l) Notwithstanding the information recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO, the Company has been informed that, as at 31 December 2018, TRATON SE held a 86.87% interest in the capital of MAN SE and had a voting interest of 87.04% in this entity.

REPORT OF THE DIRECTORS

B) MEMBERS OF THE GROUP

Long position

Name of equity holder	Nature of interests	Name of the member of the Group	Percentage of equity interest held
Liuzhou Yunli Assets Investment and Guarantee Co., Ltd.	Beneficial owner	Sinotruk Liuzhou Yunli Special Vehicles Co., Ltd.	40%
Yongan Fudi Investment Co., Ltd.	Beneficial owner	Sinotruk Fujian Haixi Vehicles Co., Ltd.	20%
Chengdu Dachenggong Mechanics Co., Ltd.	Beneficial owner	Sinotruk Chengdu Wangpai Commercial Vehicles Co., Ltd.	20%
Suizhou Huawei Investment Holdings Co., Ltd.	Beneficial owner	Sinotruk Hubei Huawei Special Vehicle Co., Ltd.	40%
Kodiak America LLC.	Beneficial owner	Sinotruk Liuzhou Yunli Kodiak Machinery Co., Ltd.	49%

Save as disclosed above, as at 31 December 2018, no other persons had any interests or short positions in the shares or underlying shares of the Company recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the Period.

MAJOR CUSTOMERS AND SUPPLIERS

The followings are the percentages of purchases and sales attributable to the major customers and suppliers of the Group for the Period:

Sales

– the largest customer	1.9%
– the five largest customers	7.8%

Purchases

– the largest supplier	3.2%
– the five largest suppliers	11.1%

The controlling shareholder and ultimate holding company, CNHTC, owns all equity interests in CNHTC Qingdao Heavy Industry Co., Ltd., CNHTC Ji'nan Specialty Vehicles Co., Ltd. and CNHTC Taian Wuyue Special Vehicle Co., Ltd. being three of the five largest suppliers of the Group.

Save as disclosed above, none of the Directors, or any of their associates or any shareholders who, to the knowledge of the Directors, hold over 5% of the issued share capital of the Company, had any beneficial interest in the major customers or suppliers of the Group noted above.

CONNECTED TRANSACTIONS

Set out below are the details of the connected transactions of the Company as required to be reported under the Listing Rules.

A. CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING AND ANNOUNCEMENT REQUIREMENTS BUT EXEMPTED FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

1) Capital Increase Agreement

Date of agreement	:	1 March 2018
Parties	:	HOWO Auto Finance Company (the connected subsidiary of the Company and, before this capital increase agreement, CNHTC directly held 20% of HOWO Auto Finance Company) the Company Ji'nan Power Company
Objective and consideration	:	In order to meet the business and capital requirements of HOWO Auto Finance Company for its expansion, the Company and Ji'nan Power agreed to make capital contributions of approximately RMB638.2 million andRMB319.1 million, respectively, to HOWO Auto Finance Company in cash.

Details of the transactions contemplated under Capital Increase Agreement were disclosed in the Company's announcement dated 1 March 2018. The capital increase was completed on 18 April 2018.

REPORT OF THE DIRECTORS

B. CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS BUT EXEMPTED FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

1) 2018 General Services Agreement

Date of agreement	:	26 March 2015
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2016 to 31 December 2018
Objective	:	the CNHTC Group has agreed to provide services such as property management, transportation, staff training, medical services and products testing and improvement services, etc. to the Group
Consideration	:	the consideration was determined on the basis of: (a) market price; or (b) if there is no market price, the cost with a reasonable margin
Annual cap for the year ended 31 December 2018	:	RMB154,000,000
Actual consideration for the year ended 31 December 2018	:	RMB94,291,751

Details of the transactions contemplated under the 2018 General Services Agreement were disclosed in the Company's announcement dated 27 March 2015.

2) 2018 Property Leasing In Agreement

Date of agreement	:	26 March 2015
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2016 to 31 December 2018
Objective	:	the CNHTC Group has agreed to provide leasing services to the Group including lease of land, office buildings and factory premises
Consideration	:	the consideration was determined on the basis of the market price approach
Annual cap for the year ended 31 December 2018	:	RMB33,000,000
Actual consideration for the year ended 31 December 2018	:	RMB17,756,633

Details of the transactions contemplated under the 2018 Property Leasing In Agreement were disclosed in the Company's announcement dated 27 March 2015.

3) 2018 Property Rent Out Agreement

Date of agreement	:	26 March 2015
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2016 to 31 December 2018
Objective	:	the Group has agreed to provide leasing services to the CNHTC Group including lease of land, office buildings and factory premises
Consideration	:	the consideration was determined on the basis of the market price approach
Annual cap for the year ended 31 December 2018	:	RMB33,000,000
Actual consideration for the year ended 31 December 2018	:	RMB17,676,915 (Note)

Note: Actual consideration included approximately RMB529,237 rental income from a connected subsidiary - HOWO Auto Finance Company.

Details of the transactions contemplated under the 2018 Property Rent Out Agreement were disclosed in the Company's announcement dated 27 March 2015.

REPORT OF THE DIRECTORS

4) 2018 CNHTC Construction and Project Management Services Agreement

Date of agreement	:	7 December 2017
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	one year from 1 January 2018 to 31 December 2018
Objective	:	the CNHTC Group has agreed to provide construction and project management services to the Group
Consideration	:	the consideration was determined on the basis of: (a) the price stipulated or guidance price by the PRC government; or (b) market price; or (c) if there are no such prices, by reference to the costs plus a reasonable profit margin which will be referenced to the average profit margin of similar services suppliers at the places of the services required and the historical prices
Annual cap for the year ended 31 December 2018	:	RMB169,000,000
Actual consideration for the year ended 31 December 2018	:	RMB33,799,252

Details of the transactions contemplated under the 2018 CNHTC Construction and Project Management Services Agreement were disclosed in the Company's announcement dated 7 December 2017.

5) 2018 Technology Development Service Agreement

Date of agreement	:	31 March 2016
Parties	:	CNHTC Datong Gear Co., Ltd. ("Datong Gear Company"), a wholly-owned subsidiary of CNHTC Ji'nan Power Company
Term	:	three years from 1 January 2016 to 31 December 2018
Objective	:	Datong Gear Company agreed to provide technology development services for the production and operation of gearbox including but not limited to providing new technology, production procedures and supply new products and materials in relation to gearbox technologies to Ji'nan Power Company
Consideration	:	the consideration was determined on the basis of a cost plus profit margin approach with margin between 5% and 25%
Annual cap for the year ended 31 December 2018	:	RMB24,000,000
Actual consideration for the year ended 31 December 2018	:	RMB22,641,509

Details of the transactions contemplated under the 2018 Technology Development Service Agreement were disclosed in the Company's announcement dated 31 March 2016.

REPORT OF THE DIRECTORS

6) 2020 MTB Parts Sales Agreement

Date of agreement	:	7 December 2017
Parties	:	MAN Truck & Bus AG (for itself and on behalf of its subsidiaries ("MTB Group")), a non-wholly owned subsidiary of FPFPS the Company (for itself and a behalf of its subsidiaries)
Term	:	three years from 1 January 2018 to 31 December 2020
Objective	:	the Group has agreed to supply raw materials, auxiliary materials, parts and spare parts, semi-finished products and moulds for the production of these spare parts, etc. to the MTB Group
Consideration	:	the consideration was determined on the bases of: (a) off-the-shelf products: market price approach (b) unique and proprietary products: a cost plus profit margin approach with margin between 5% to 25%
Annual cap for the year ended 31 December 2018	:	RMB291,000,000
Actual consideration for the year ended 31 December 2018	:	RMB28,045,198

Details of the transactions contemplated under the 2020 MTB Parts Sales Agreement were disclosed in the Company's announcement dated 7 December 2017.

7) 2018 Technology Support and Services Agreement

Date of agreement	:	31 March 2016
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2016 to 31 December 2018
Objective	:	the Group has agreed to provide the CNHTC Group the technology support and services such as technology research and development, technology consultancy and support services
Consideration	:	the consideration was determined on the basis of a cost plus profit margin approach with margin between 5% and 25%
Annual cap for the year ended 31 December 2018	:	RMB42,000,000 (revised)
Actual consideration for the year ended 31 December 2018	:	RMB6,389,190

Details of the transactions contemplated under the 2018 Technology Support and Services Agreement and the revised cap for the year ended 31 December 2018 were disclosed in the Company's announcements dated 31 March 2016 and 26 March 2018.

REPORT OF THE DIRECTORS

8) 2018 CNHTC Guarantee Agreement

Date of agreement	:	31 March 2016
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) (as grantor of the credit guarantee) HOWO Auto Finance Company (as beneficiary of the credit guarantee)
Term	:	period from 1 April 2016 to 31 December 2018
Objective	:	members of the CNHTC Group agreed to provide credit guarantee to HOWO Auto Finance Company in respect of the payment obligations of loans to customers of the CNHTC Group
Consideration	:	nil
Annual cap for the year ended 31 December 2018	:	maximum day-end guarantee balance: RMB225,000,000
Actual consideration for the year ended 31 December 2018	:	maximum day-end guarantee balance: RMB8,550,005

Details of the transactions contemplated under the 2018 CNHTC Guarantee Agreement were disclosed in the Company's announcement dated 31 March 2016.

9) 2018 Sinotruk Guarantee Agreement

Date of agreement	:	31 March 2016
Parties	:	the Company (for itself and on behalf of its subsidiaries but excluding HOWO Auto Finance Company) (as grantor of the credit guarantee) HOWO Auto Finance Company (as beneficiary of the credit guarantee)
Term	:	period from 1 April 2016 to 31 December 2018
Objective	:	the Group agreed to provide credit guarantee to HOWO Auto Finance Company in respect of the payment obligations of loans to customers of the Group
Consideration	:	nil
Annual cap for the year ended 31 December 2018	:	maximum day-end guarantee balance: RMB225,000,000
Actual consideration for the year ended 31 December 2018	:	maximum day-end guarantee balance: RMB8,748,000

Details of the transactions contemplated under the 2018 Sinotruk Guarantee Agreement were disclosed in the Company's announcement dated 31 March 2016.

10) 2018 Financial Services Agreement

Date of agreement	:	7 December 2017
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) Sinotruk Finance Company
Term	:	one year from 1 January 2018 to 31 December 2018
Objective	:	Sinotruk Finance Company will provide a wide range of financial services to the CNHTC Group
Consideration	:	(a) bills discounting services, (b) unsecured loan services and (c) entrustment loan arrangements: market price approach
Annual cap for the year ended 31 December 2018	:	(a) bills discounting services: (i) maximum day end balance: RMB100,000,000 and (ii) interest income: RMB6,000,000 (b) unsecured loan services: (i) maximum day end balance: RMB780,000,000 and (ii) interest income: RMB40,800,000 (c) entrustment loan arrangements' fee income: RMB1,500,000
Actual consideration for the year ended 31 December 2018	:	(a) bills discounting services: (i) maximum day end balance: nil and (ii) interest income: nil (b) unsecured loan services: (i) maximum day end balance: RMB750,000,000 and (ii) interest income: RMB13,874,662 (Note) (c) entrustment loan arrangements' fee income: RMB483,896

Note: Actual consideration included approximately RMB7,356,333 interest income from a connected subsidiary – HOWO Auto Finance Company.

Details of the transactions contemplated under the 2018 Financial Services Agreement were disclosed in the Company's announcement dated 7 December 2017.

11) 2018 Deposits Taking Services Agreement

Date of agreement	:	7 December 2017
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	one year from 1 January 2018 to 31 December 2018
Objective	:	the eligible members of the Group provides the deposits taking services to the CNHTC Group
Consideration	:	the consideration was determined on the basis of the market price approach
Annual cap for the year ended 31 December 2018	:	(i) maximum day end balance: RMB1,500,000,000 and (ii) interest expenses: RMB50,000,000
Actual consideration for the year ended 31 December 2018	:	(i) maximum day end balance: RMB1,401,519,284 and (ii) interest expenses: RMB8,450,690

Details of the transactions contemplated under 2018 Deposits Taking Services Agreement were disclosed in the Company's announcement dated 7 December 2017.

C. CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

1) 2018 Products Sales Agreement

Date of agreement	:	26 March 2015
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2016 to 31 December 2018
Objective	:	the Group has agreed to supply products including trucks, chassis and semi-tractor trucks to the CNHTC Group
Consideration	:	the consideration was determined on the basis of the market price approach
Annual cap for the year ended 31 December 2018	:	RMB1,330,000,000 (revised)
Actual consideration for the year ended 31 December 2018	:	RMB448,658,166

Details of the transactions contemplated under the 2018 Products Sales Agreement and the revised cap for the year ended 31 December 2018 were disclosed in the Company's announcements dated 27 March 2015 and 23 October 2017 and the Company's circular dated 29 May 2015.

2) 2018 Products Purchase Agreement

Date of agreement	:	26 March 2015
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2016 to 31 December 2018
Objective	:	the CNHTC Group has agreed to sell products including refitted trucks to the Group
Consideration	:	the consideration was determined on the basis of: (a) refitted products: market price approach or, at the case may be, prices mutually agreed between the Group's customers and the CNHTC Group (b) products only available from the CNHTC Group: prices as quoted in the price lists of the CNHTC Group for all its customers
Annual cap for the year ended 31 December 2018	:	RMB3,004,000,000 (revised)
Actual consideration for the year ended 31 December 2018	:	RMB2,586,267,802

Details of the transactions contemplated under the 2018 Products Purchase Agreement and the revised cap for the year ended 31 December 2018 were disclosed in the Company's announcements dated 27 March 2015 and 26 March 2018 and the Company's circulars dated 29 May 2015 and 9 May 2018.

3) 2018 Parts Sales Agreement

Date of agreement	:	26 March 2015
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2016 to 31 December 2018
Objective	:	the Group has agreed to supply raw materials, parts and components and semi-finished products to the CNHTC Group
Consideration	:	the consideration was determined on the basis of: (a) off-the-shelf products: the market price approach (b) unique and proprietary products: a cost plus profit margin approach with margin between 5% and 25%
Annual cap for the year ended 31 December 2018	:	RMB1,014,000,000 (revised)
Actual consideration for the year ended 31 December 2018	:	RMB844,155,449

Details of the transactions contemplated under the 2018 Parts Sales Agreement and the revised cap for the year ended 31 December 2018 were disclosed in the Company's announcements dated 27 March 2015 and 26 March 2018 and the Company's circular dated 29 May 2015.

4) 2018 Parts Purchase Agreement

Date of agreement	:	26 March 2015
Parties	:	CNHTC (for itself and on behalf of its associates but excluding the Group) the Company (for itself and on behalf of its subsidiaries)
Term	:	three years from 1 January 2016 to 31 December 2018
Objective	:	the CNHTC Group has agreed to supply raw materials, parts and components and semi-finished products to the Group
Consideration	:	The consideration was determined on the basis of: (a) off-the-shelf products: the market price approach (b) unique and proprietary products: a cost plus profit margin approach with margin between 5% and 25%
Annual cap for the year ended 31 December 2018	:	RMB1,700,000,000 (revised)
Actual consideration for the year ended 31 December 2018	:	RMB1,309,057,434

Details of the transactions contemplated under the 2018 Parts Purchase Agreement and the revised cap for the year ended 31 December 2018 were disclosed in the Company's announcement dated 27 March 2015 and 26 March 2018 and the Company's circulars dated 29 May 2015 and 9 May 2018.

5) 2018 HOWO Loan Agreement

Date of agreement	:	31 March 2016
Parties	:	Sinotruk Finance Company (as lender) HOWO Auto Finance Company (as borrower)
Duration	:	period from 1 July 2016 to 31 December 2018
Objective	:	Sinotruk Finance Company will provide loan services to HOWO Auto Finance Company
Consideration	:	the consideration was determined on the market price basis
Annual cap for the year ended 31 December 2018	:	(a) maximum day-end loan balance: RMB2,850,000,000 (b) interest income: RMB124,000,000
Actual consideration for the year ended 31 December 2018	:	(a) maximum day-end loan balance: RMB2,850,000,000 (b) interest income: RMB27,643,646

Details of the transactions contemplated under the 2018 HOWO Loan Agreement were disclosed in the Company's announcement dated 31 March 2016 and the Company's circular dated 26 May 2016.

6) 2018 Sinotruk Deposit Agreement

Date of agreement	:	31 March 2016
Parties	:	the Company (for itself and on behalf of its subsidiaries but excluding HOWO Auto Finance Company) (as user of the deposit services) HOWO Auto Finance Company (as provider of the deposit services)
Duration	:	period from 1 July 2016 to 31 December 2018
Objective	:	HOWO Auto Finance Company will provide deposit services to the Company (for itself and on behalf of its subsidiaries but excluding HOWO Auto Finance Company)
Consideration	:	the consideration was determined on the market price basis
Annual cap for the year ended 31 December 2018	:	(a) maximum day-end deposit balance: RMB450,000,000 (b) interest income: RMB14,000,000
Actual consideration for the year ended 31 December 2018	:	(a) maximum day-end deposit balance: RMB450,000,000 (b) interest income: RMB4,625,500

Details of the transactions contemplated under the 2018 Sinotruk Deposit Agreement were disclosed in the Company's announcement dated 31 March 2016 and the Company's circular dated 26 May 2016.

All the above continuing connected transactions did not exceed the relevant annual cap amounts. The price and the terms of the above transactions have been determined in accordance with the pricing policies and guideline set out in their relevant announcements and/or the relevant circulars.

The Directors (including the INEDs) have reviewed the continuing connected transactions of the Company and confirmed that they were:

i. entered into in the ordinary and usual course of business of the Group;

ii. on normal commercial terms or better; and

iii. entered into in accordance with the relevant agreements governing these transactions on terms that are fair and reasonable and are in the interests of the shareholders of the Company as a whole.

The auditors of the Company was engaged to report the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants.

PricewaterhouseCoopers, the auditors of the Company, have issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions for the Period disclosed above in accordance with the Rule 14A.56 of the Listing Rules and confirmed nothing has come to their attention that causes them to believe that the continuing connected transactions:

i. have not been approved by the Board;

ii. were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provisions of goods or services by the Group;

iii. were not entered into, in all material respects, in accordance with the relevant agreements governing these continuing connected transactions; and

iv. have exceeded the relevant annual caps.

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

RELATED PARTY TRANSACTIONS

The related party transactions are set out in Note 38 to the consolidated financial statements. Apart from the connected transactions disclosed above, the other related party transactions as disclosed in Notes 38(a)(i), (ii) and (vi) fall under the scope of connected transactions under Chapter 14A of the Listing Rules but are exempted from reporting, annual review, announcement or independent shareholders' approval requirements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company, and within the knowledge of the Directors, as at the bulk printing date of this report, the Company has maintained sufficient public float in accordance with the Listing Rules.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The 2018 Environmental, Social and Governance Report of the Company will be disclosed separately at the websites of the Company and the Stock Exchange.

AUDITORS

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board
Cai Dong
Chairman and President

Beijing, PRC, 27 March 2019

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Members of Sinotruk (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of Sinotruk (Hong Kong) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 85 to 211, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

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INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

KEY AUDIT MATTERS

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

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

- Recoverability of Accounts Receivable
- Warranty Provisions

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of Accounts Receivable	
Refer to Note 2.2 (n) (Summary of significant accounting policies), Note 4.1(d) (Critical accounting estimates and assumptions) and Note 22 (Receivables and other assets) of the consolidated financial statements. At 31 December 2018, the Group held accounts receivable from third party customers amounted to RMB6,108 million, against which a provision of RMB1,065 million was set aside. The Group, applying the HKFRS 9 simplified approach to measuring a lifetime expected credit losses, made the estimation based on a number of variable factors and assumptions including: the operating and financial performance of the customers, the past collection history of customers, the amounts and time the Group expected to collect the receivables, discounted rate of future cash flows, groupings based on credit risk characteristics, and taking into consideration of the historical loss experience and forward-looking macroeconomic factors. We focused on this area due to the magnitude of accounts receivable balances and the significance of management judgements applied in determining the provision for impairment of such balances.	We understood and validated management's controls to assess, review and determine the impairment of accounts receivable, including controls over identification of objective evidence of impairment and calculations of the impairment provisions. For receivable balances with objective evidence of impairment that the Group may not recover the receivable balances entirely, we performed the following procedures: We discussed with the management and understood the method and basis on evaluating the customers' operating and financial performance; We validated the related supporting evidence used by the management for evaluating the customers' operating and financial performance on sample basis, including: • We searched the background and operating and financial performance of customers through public enterprise credit information, and compared with the information the management recorded; • We reviewed management's correspondence and communication records with customers; and

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KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of Accounts Receivable (Continued)	• For customers the Group started legal proceedings with, we sent confirmations to the Group's external lawyers to evaluate the background and the status of the legal proceedings. We understood and tested the basis, assumptions and evidence used for evaluating the expected future cash flows on sample basis, including: testing the consistency of key assumptions with the sales contract terms and financial records, comparing with the information obtained from the above procedures, and testing the accuracy of the calculation of expected future cash flows; We understood the discounted rate of future cash flows and evaluated the reasonableness after considering customers' specific credit risk. For receivable balances without objective evidence of impairment and grouped based on their credit risk characteristics, we performed following procedures: We understood the standards for determining different groupings based on their credit risk characteristics, and tested the accuracy and completeness of the groupings on sample basis, including searching the background and operating and financial performance of customers through public enterprise credit information, checking the consistency of credit terms in sales contract with management's records;

INDEPENDENT AUDITOR'S REPORT

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KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of Accounts Receivable (Continued)	
	We checked the accuracy of aging analysis of accounts receivable on sample basis; We assessed the appropriateness of the Group's grouping and provision percentage, and the accuracy of the calculation of estimating collective provisions by considering and testing the historical bad debts amounts and pattern, taking into consideration of factors such as customers' credit and market condition and disclosed public information of companies of same type. Understand and assess management's considerations on forward-looking macroeconomic factors. Based on the procedures performed, we considered management's judgement in assessing the recoverability of accounts receivable were supported by the evidence we obtained.

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KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
The Recognition of Warranty Provisions	
Refer to Note 4.1(b) (Critical accounting estimates and assumptions), Note 6 (Expenses by nature) and Note 32 (Provisions for other liabilities) of the consolidated financial statements. As at 31 December 2018, the Group had warranty provisions amounted to RMB 929 million. The provisions for product warranties granted by the Group to customers are recognised based on estimated costs of warranty claims on products sold. The estimation of the warranty provisions includes a number of variable factors and assumptions including: the time of the expected repair occurred, future labour costs and parts costs. We focused on this area because of inherent level of management judgement required in calculating the amount of provisions needed as a result of the complex and subjective elements around these variable factors and assumptions.	We understood, evaluated and tested the design and operating effectiveness of the Group's controls over the estimation of the provisions for the warranty costs. We compared the current year actual claims results with the year 2018 figures included in the prior year forecast to consider whether there is a bias in the management's estimation. Through testing the after sales service system on sample basis, we tested the completeness and accuracy of the historical claims input data. We tested management's warranty provision model, including: • We checked the sales contracts on sample basis to evaluate whether the key assumptions in the warranty provision model is in accordance with the contract terms; • We checked the Group's sales quantity and amounts of this year, and compared with related financial information and other supporting evidence; • In particular, we challenged the management's assumptions for the time of future warranty claims by comparing historical information of products sold and actual claims results with recent market trends to assess whether past information might differ from future actual claims; • We evaluated the management's assumptions on future labour and parts costs by comparing the trend of historical labour and parts costs, and taking into consideration of the latest market conditions;

INDEPENDENT AUDITOR'S REPORT

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KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
The Recognition of Warranty Provisions (Continued)	• We evaluated the impact of the expected time the repair occurred on time value of money of the warranty balance; and • We tested the accuracy of calculation based on management's warranty provision model. We confirmed with the management whether major product defects, which may have significant impact on the warranty provisions recognised, occurred during the year or the subsequent period. Based on the work performed, we considered that the warranty provisions were supported by the evidence we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information set out in the Company's 2018 Annual Report. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

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RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	2018	2017
Revenue	5	**61,784,667**	55,457,928
Cost of sales	6	**(50,610,072)**	(45,429,858)
Gross profit		**11,174,595**	10,028,070
Distribution costs	6	**(3,021,155)**	(3,228,577)
Administrative expenses	6	**(2,901,157)**	(2,951,790)
Net impairment losses of financial assets	3.1(c)	**(303,510)**	—
Other gains – net	7	**693,370**	423,879
Operating profit		**5,642,143**	4,271,582
Finance income	9	**89,270**	81,335
Finance costs	9	**(89,344)**	(342,928)
Finance costs – net	9	**(74)**	(261,593)
Share of profits less losses of investments accounted for using the equity method	11	**70,351**	45,444
Dilution gain on investment in an associate	11	**6,283**	—
Profit before income tax		**5,718,703**	4,055,433
Income tax expense	12	**(993,058)**	(719,538)
Profit for the year		**4,725,645**	3,335,895
Profit attributable to:			
– Owners of the Company		**4,344,545**	3,023,023
– Non-controlling interests		**381,100**	312,872
		4,725,645	3,335,895
Earnings per share for profit attributable to owners of the Company for the year			
(expressed in RMB per share)			
– basic and diluted	13	**1.57**	1.09

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	2018	2017
Profit for the year		**4,725,645**	3,335,895
Other comprehensive income:			
Item that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment benefit obligations		**122**	(1,654)
Revaluation gains arising from transfer of property, plant and equipment and land use rights to investment properties		**–**	11,666
Items that may be reclassified to profit or loss			
Change in value of available-for-sale financial assets		**–**	5,120
Share of other comprehensive income of investments accounted for using the equity method		**6,151**	16
Currency translation differences		**(5,089)**	200
Other comprehensive income for the year, net of tax		**1,184**	15,348
Total comprehensive income for the year		**4,726,829**	3,351,243
Attributable to:			
– Owners of the Company		**4,345,668**	3,038,002
– Non-controlling interests		**381,161**	313,241
Total comprehensive income for the year		**4,726,829**	3,351,243

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Land use rights	14	**1,611,631**	1,650,123
Property, plant and equipment	15	**10,366,478**	9,937,766
Investment properties	16	**712,797**	709,576
Intangible assets	17	**324,051**	356,827
Goodwill		**3,868**	3,868
Deferred income tax assets	29	**1,413,518**	1,484,254
Investments accounted for using the equity method	11	**534,148**	477,827
Financial assets at fair value through other comprehensive income	19(a)	**37,925**	—
Financial assets at fair value through profit or loss	21	**173,688**	—
Available-for-sale financial assets	19(b)	**—**	205,533
Receivables and other assets	22	**2,194,684**	1,946,712
		17,372,788	16,772,486
Current assets			
Inventories	23	**11,594,492**	13,246,027
Receivables and other assets	22	**12,589,314**	15,150,697
Financial assets at amortised cost	20	**33,990**	—
Financial assets at fair value through other comprehensive income	19(a)	**2,523,058**	—
Financial assets at fair value through profit or loss	21	**2,078,180**	781,981
Available-for-sale financial assets	19(b)	**—**	2,340,073
Amounts due from related parties	38(b)	**520,232**	352,768
Cash and bank balances	24	**14,968,357**	12,417,389
		44,307,623	44,288,935
Assets classified as held for sale	25	**—**	121,595
		44,307,623	44,410,530
Total assets		**61,680,411**	61,183,016
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**16,717,024**	16,717,024
Other reserves		**(334,071)**	(576,483)
Retained earnings		**9,092,592**	6,616,922
		25,475,545	22,757,463
Non-controlling interests		**2,852,307**	2,673,248
Total equity		**28,327,852**	25,430,711

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	31 December 2018	31 December 2017
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	29	**41,056**	51,398
Termination and post-employment benefit obligations	30	**9,307**	14,233
Deferred income	31	**316,438**	361,200
		366,801	426,831
Current liabilities			
Trade payables, other payables and other current liabilities	27	**28,305,197**	28,545,935
Current income tax liabilities		**284,642**	395,068
Borrowings	28	**3,000,000**	3,990,000
Amounts due to related parties	38(b)	**467,336**	1,416,385
Provisions for other liabilities	32	**928,583**	978,086
		32,985,758	35,325,474
Total liabilities		**33,352,559**	35,752,305
Total equity and liabilities		**61,680,411**	61,183,016

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 85 to 211 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf.

Cai Dong
Director

Sun Chenglong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

		Attributable to owners of the Company									Non-controlling interests	Total equity
	Note	Share capital	Capital reserve	Revaluation reserve	Statutory reserves	Discretionary reserve	Merger reserve	Translation reserve	Retained earnings	Total		
Balance at 1 January 2017		16,717,024	(3,623,842)	52,414	1,412,826	104,294	1,144,582	21,484	4,083,027	19,911,809	2,427,288	22,339,097
Profit for the year		–	–	–	–	–	–	–	3,023,023	3,023,023	312,872	3,335,895
Other comprehensive income												
Remeasurements of termination and post-employment benefit obligations		–	–	–	–	–	–	–	(1,565)	(1,565)	(89)	(1,654)
Revaluation gains arising from transfer of property, plant and equipment and land use rights to investment property		–	–	11,216	–	–	–	–	–	11,216	450	11,666
Change in value of available-for-sale financial assets		–	–	5,112	–	–	–	–	–	5,112	8	5,120
Share of other comprehensive gain of investments accounted for using the equity method		–	–	–	–	–	–	16	–	16	–	16
Currency translation differences		–	–	–	–	–	–	200	–	200	–	200
Total other comprehensive income for the year		–	–	16,328	–	–	–	216	(1,565)	14,979	369	15,348
Transactions with owners in their capacity as owners												
Dividends of the Company relating to 2016		–	–	–	–	–	–	–	(193,029)	(193,029)	–	(193,029)
Dividends of subsidiaries distributed to non-controlling interests	33(c)	–	–	–	–	–	–	–	–	–	(62,562)	(62,562)
Capital injection from non-controlling interests		–	–	–	–	–	–	–	–	–	3,404	3,404
Changes in ownership interests in a subsidiary without change of control		–	681	–	–	–	–	–	–	681	(8,123)	(7,442)
Total transactions with owners in their capacity as owners		–	681	–	–	–	–	–	(193,029)	(192,348)	(67,281)	(259,629)
Appropriation to reserves		–	–	–	294,534	–	–	–	(294,534)	–	–	–
Balance at 31 December 2017		16,717,024	(3,623,161)	68,742	1,707,360	104,294	1,144,582	21,700	6,616,922	22,757,463	2,673,248	25,430,711

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	Attributable to owners of the Company									Non-controlling interests	Total equity
		Share capital	Capital reserve	Revaluation reserve	Statutory reserves	Discretionary reserve	Merger reserve	Translation reserve	Retained earnings	Total		
Balance at 31 December 2017 as originally presented		16,717,024	(3,623,161)	68,742	1,707,360	104,294	1,144,582	21,700	6,616,922	22,757,463	2,673,248	25,430,711
Changes in accounting policies	2.1.1	–	–	(27,493)	–	–	–	–	4,602	(22,891)	(3,691)	(26,582)
Restated balance at 1 January 2018		16,717,024	(3,623,161)	41,249	1,707,360	104,294	1,144,582	21,700	6,621,524	22,734,572	2,669,557	25,404,129
Profit for the year		–	–	–	–	–	–	–	4,344,545	4,344,545	381,100	4,725,645
Other comprehensive income												
Remeasurements of post-employment benefit obligations		–	–	61	–	–	–	–	–	61	61	122
Share of other comprehensive income of investments accounted for using the equity method		–	–	–	–	–	–	6,151	–	6,151	–	6,151
Currency translation differences		–	–	–	–	–	–	(5,089)	–	(5,089)	–	(5,089)
Total other comprehensive income for the year		–	–	61	–	–	–	1,062	–	1,123	61	1,184
Transactions with owners in their capacity as owners												
Dividends of the Company relating to 2017		–	–	–	–	–	–	–	(1,614,554)	(1,614,554)	–	(1,614,554)
Dividends of subsidiaries distributed to non-controlling interests	33(c)	–	–	–	–	–	–	–	–	–	(181,759)	(181,759)
Changes in ownership interests in a subsidiary without change of control	37	–	9,859	–	–	–	–	–	–	9,859	(16,652)	(6,793)
Total transactions with owners in their capacity as owners		–	9,859	–	–	–	–	–	(1,614,554)	(1,604,695)	(198,411)	(1,803,106)
Appropriation to reserves		–	–	–	258,923	–	–	–	(258,923)	–	–	–
Balance at 31 December 2018		16,717,024	(3,613,302)	41,310	1,966,283	104,294	1,144,582	22,762	9,092,592	25,475,545	2,852,307	28,327,852

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	2018	2017
Cash flows from operating activities			
Cash generated from operations	34(a)	**5,416,266**	6,140,099
Interest paid		**(142,506)**	(261,137)
Income tax paid		**(1,042,668)**	(723,601)
Net cash generated from operating activities		**4,231,092**	5,155,361
Cash flows from investing activities			
Net cash outflows for disposal of a subsidary		**–**	(30,199)
Proceeds from disposal of an associate		**–**	1,016
Purchase of land use rights		**–**	(31,432)
Purchase of property, plant and equipment		**(1,363,072)**	(871,091)
Proceeds from disposals of property, plant and equipment	34(b)	**20,180**	20,533
Proceeds from assets classified as held for sale		**184,682**	–
Purchase of intangible assets		**(40,417)**	(8,858)
Purchase of wealth management products with principal and interests guaranteed		**(1,800,000)**	(4,600,000)
Proceeds from disposal of wealth management products with principal and interests guaranteed		**2,727,912**	3,721,670
Purchase of financial assets at fair value through profit or loss		**(9,894,906)**	(1,762,923)
Proceeds from disposal of financial assets at fair value through profit or loss		**11,026,153**	1,156,318
Dividends income received from financial assets at fair value through profit or loss		**1,354**	2,313
Dividends received from financial assets at fair value through other comprehensive income		**2,250**	–
Dividends received from available-for-sale financial assets		**–**	2,047
Interests from available-for-sale financial assets		**–**	8,721
Purchase of available-for-sale financial assets		**–**	(8,467,785)
Proceeds from disposal of available-for-sale financial assets		**–**	8,066,587
Acquisition of an associate		**(5,000)**	–
Interest received		**88,066**	82,102
Dividends received from an associate		**22,723**	24,764
Dividends received from a joint venture		**8,741**	9,296
Net cash generated form/(used in) investing activities		**978,666**	(2,676,921)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

	Note	2018	2017
Cash flows from financing activities			
Proceeds from borrowings		3,000,000	6,295,000
Repayments of borrowings		(3,690,000)	(5,746,787)
Acquisition of non-controlling interests		–	(7,442)
Dividends paid to the owners of the Company		(1,614,554)	(193,029)
Dividends paid to non-controlling interests of subsidiaries		(182,555)	(61,754)
Net cash (used in)／generated from financing activities		(2,487,109)	285,988
Net increase in cash and cash equivalents		2,722,649	2,764,428
Cash and cash equivalents at beginning of the year	24(b)	9,840,149	7,171,365
Exchange gains／(losses) on cash and cash equivalents		53,196	(95,644)
Cash and cash equivalents at end of the year	24(b)	12,615,994	9,840,149

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

1. GENERAL INFORMATION

Sinotruk (Hong Kong) Limited (the "Company") was incorporated in Hong Kong on 31 January 2007 as a limited liability company as a result of a group reorganisation (the "Reorganisation") of China National Heavy Duty Truck Group Company Limited ("CNHTC"). The address of the Company's registered office is Units 2102-2103, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Group is principally engaged in the research, development and manufacturing of heavy duty trucks, medium-heavy duty trucks, light duty trucks and related key parts and components including engines, cabins, axles, steel frames and gearbox and the provision of financial services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, financial assets (including derivative instruments) at fair value through profit or loss, assets classified as held for sale and investment properties which are carried at fair value.

These consolidated financial statements comply with the applicable requirements of Hong Kong Companies Ordinance (Cap. 622), with the exception of Section 381 which requires a company to include all its subsidiary undertakings (within the meaning of Schedule 1 to Cap. 622) in the Company's annual consolidated financial statements. Section 381 is inconsistent with the requirements of HKFRS 10 Consolidated Financial Statements so far as Section 381 applies to subsidiary undertakings which are not controlled by the Group in accordance with HKFRS 10. For this reason, under the provisions of Section 380(6), the Company has departed from Section 381 and has not treated such a company as subsidiary but it is accounted for as joint venture in accordance with the accounting policies in Note 2.2(c). The details of the excluded subsidiary undertaking of the Group is disclosed in Note 11(b).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

		Effective for annual periods beginning on or after
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 4 (Amendments)	Insurance Contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HKAS 40 (Amendments)	Transfers of Investment Property	1 January 2018
Annual Improvements 2014-2016 Cycle		1 January 2018

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. The other newly adopted standards or amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future period.

The impact of adopting the following standards are disclosed Notes 2.1.1(1) and 2.1.1(2) respectively:

- HKFRS 9 *Financial Instruments*, and
- HKFRS 15 *Revenue from Contracts with Customers*.

HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting HKFRS 9. The reclassification and adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position as at 1 January 2018.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and these comparatives will not be restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

The following tables show the adjustments recognised for each individual line item. The adjustments are explained in more details by standard below.

Consolidated statement of financial position	31 December 2017	HKFRS 9	HKFRS 15	1 January 2018
Non-Current Assets				
Land use rights	1,650,123	—	—	1,650,123
Property, plant and equipment	9,937,766	—	—	9,937,766
Investment properties	709,576	—	—	709,576
Intangible assets	356,827	—	—	356,827
Goodwill	3,868	—	—	3,868
Deferred income tax assets	1,484,254	—	—	1,484,254
Investments accounted for using the equity method	477,827	—	—	477,827
Financial assets at fair value through other comprehensive income (“FVOCI”)	—	37,925	—	37,925
Financial assets at fair value through profit or loss (“FVPL”)	—	167,608	—	167,608
Available-for-sale financial assets (“AFS”)	205,533	(205,533)	—	—
Receivables and other assets	1,946,712	—	—	1,946,712
	16,772,486	—	—	16,772,486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

Consolidated statement of financial position	31 December 2017	HKFRS 9	HKFRS 15	1 January 2018
Current Assets				
Inventories	13,246,027	—	—	13,246,027
Receivables and other assets	15,150,697	(3,611,907)	—	11,538,790
Financial assets at amortised cost	—	900,000	—	900,000
Financial assets at fair value through other comprehensive income	—	2,685,325	—	2,685,325
Financial assets at fair value through profit or loss	781,981	2,340,073	—	3,122,054
Available-for-sale financial assets	2,340,073	(2,340,073)	—	—
Amounts due from related parties	352,768	—	—	352,768
Cash and bank balances	12,417,389	—	—	12,417,389
	44,288,935	(26,582)	—	44,262,353
Assets classified as held for sale	121,595	—	—	121,595
	44,410,530	(26,582)	—	44,383,948
Total assets	61,183,016	(26,582)	—	61,156,434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

Consolidated statement of financial position	31 December 2017	HKFRS 9	HKFRS 15	1 January 2018
EQUITY				
Equity attributable to owners of the Company				
Share capital	16,717,024	—	—	16,717,024
Other reserves	(576,483)	(27,493)	—	(603,976)
Retained earnings	6,616,922	4,602	—	6,621,524
	22,757,463	(22,891)	—	22,734,572
Non-controlling interests	2,673,248	(3,691)	—	2,669,557
Total equity	25,430,711	(26,582)	—	25,404,129
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities	51,398	—	—	51,398
Termination and post-employment benefit obligations	14,233	—	—	14,233
Deferred income	361,200	—	—	361,200
	426,831	—	—	426,831
Current liabilities				
Trade payables, other payables and other current liabilities	28,545,935	—	—	28,545,935
Current income tax liabilities	395,068	—	—	395,068
Borrowings	3,990,000	—	—	3,990,000
Amounts due to related parties	1,416,385	—	—	1,416,385
Provisions for other liabilities	978,086	—	—	978,086
	35,325,474	—	—	35,325,474
Total liabilities	35,752,305	—	—	35,752,305
Total equity and liabilities	61,183,016	(26,582)	—	61,156,434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(1) HKFRS 9 *Financial Instruments* – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 *Financial Instruments* from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.2(l) below. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated with the exception of certain aspects of hedge accounting. The Group does not have any hedging instrument in the year 2017 and current reporting period.

The total impact of transition to HKFRS 9 on the Group's retained earnings and equity as at 1 January 2018 is as follows:

	Notes	Effect on retained earnings	Effect on revaluation reserve	Effect on non-controlling interests
Opening balance – HKAS 39		6,616,922	68,742	2,673,248
Reclassification:				
Reclassify wealth management products from AFS to FVPL	(a)	27,493	(27,493)	—
		6,644,415	41,249	2,673,248
Adjustment for impairment:				
Increase in provision for impairment of trade receivables	(b)	(22,891)	—	(3,691)
Opening balance – HKFRS 9		6,621,524	41,249	2,669,557

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(1) HKFRS 9 *Financial Instruments* – Impact of adoption (Continued)

(a) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	Notes	AFS	Receivables and other assets	FVPL	FVOCI	Financial assets at amortised cost
Closing balance						
31 December 2017 – HKAS 39		2,545,606	17,097,409	–	–	–
Reclassify wealth management products from AFS to FVPL	(i)	(2,507,681)	–	2,507,681	–	–
Reclassify non-trading equities from AFS to FVOCI	(ii)	(37,925)	–	–	37,925	–
Reclassify wealth management products from other receivables to financial assets at amortised cost	(iii)	–	(900,000)	–	–	900,000
Reclassify note receivables from trade receivables to FVOCI	(iv)	–	(2,685,325)	–	2,685,325	–
Opening balance 1 January 2018 – HKFRS 9		–	13,512,084	2,507,681	2,723,250	900,000

The Group was required to reclassify its financial assets into the appropriate HKFRS 9 categories. The impact of the reclassification on the Group's retained earnings and equity is disclosed in the table above.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(1) HKFRS 9 *Financial Instruments* – Impact of adoption (Continued)

(a) Classification and measurement (Continued)

(i) Reclassification from AFS to FVPL

Wealth management products with principal and interest non-guaranteed were reclassified from AFS to FVPL (RMB2,507,681,000 as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost because their cash flows do not represent solely payments of principal and interest.

Related fair value gains of these wealth management products of RMB27,493,000 were transferred from the revaluation reserve to retained earnings on 1 January 2018.

(ii) Equity investments previously classified as AFS

The Group elected to present in other comprehensive income ("OCI") changes in the fair value of all its non-trading equity investments previously classified as AFS because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with fair value of RMB37,925,000 were reclassified from AFS to FVOCI. As there was no fair value gains or losses recognised before, no reclassification from the revaluation reserve to the FVOCI reserve on 1 January 2018 was made.

(iii) Debt investments at amortised cost

Wealth management products with principal and interest guaranteed are held for collection of contractual cash flows, and the cash flows represent solely payments of principal and interests on the principal amount. These products were reclassified from other receivables to financial assets at amortised cost under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

(iv) Debt investments at FVOCI

Notes receivables included in trade receivables are held for collecting contractual cash flows and for selling the financial assets. The contractual cash flows of these investments are solely principal and interest. As a result, note receivables with a fair value of RMB2,685,325,000 were reclassified from trade receivables to FVOCI on 1 January 2018.

(v) Other financial assets

Equity securities – held for trading are required to be held as FVPL under HKFRS 9. There was no impact on the amounts recognised and classification in relation to these assets from the adoption of HKFRS 9.

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For the year ended 31 December 2018
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(1) HKFRS 9 *Financial Instruments* – Impact of adoption (Continued)

(a) Classification and measurement (Continued)

(vi) Reclassifications of financial instruments on adoption of HKFRS 9

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
Non-current financial assets	**Original (HKAS 39)**	**New (HKFRS 9)**	**Original**	**New (HKFRS 9)**	**Difference**
Unlisted securities					
– equity investments	AFS	FVOCI	37,925	37,925	–
Wealth management products with principal and interests non-guaranteed and due more than one year	AFS	FVPL	167,608	167,608	–
Current financial assets					
Listed securities – held for trading					
– equity securities	FVPL	FVPL	128,306	128,306	–
Wealth management product – with principal preservation and floating return	FVPL	FVPL	653,675	653,675	–
Wealth management products with principal and interests non-guaranteed and due within one year	AFS	FVPL	2,340,073	2,340,073	–
Receivable and other assets excluding prepaid items	Amortised cost	Amortised cost	10,110,015	10,083,433	26,582
Wealth management products with principal and interests guaranteed	Amortised cost	Amortised cost	900,000	900,000	–
Notes receivable	Amortised cost	FVOCI	2,685,325	2,685,325	–
Cash and bank balances	Amortised cost	Amortised cost	12,417,389	12,417,389	–

The differences noted in this column are the results of applying the new expected credit loss model. The reclassifications of the financial instruments on adoption of HKFRS 9 did not result in any changes to measurements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(1) HKFRS 9 *Financial Instruments* – Impact of adoption (Continued)

(b) Impairment of financial assets

The Group has following financial assets that are subject to HKFRS 9's new expected credit loss model:

- Trade and other receivables;
- Financial assets at amortised cost;
- Debt instruments at FVOCI; and
- Loans to related and third parties.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in above.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(i) Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses the lifetime expected loss allowance for all trade receivables.

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Loss allowance of trade receivables
At 31 December 2017 – calculated under HKAS 39	803,354
Amounts restated through opening retained earnings	22,891
Amounts restated through opening non-controlling interests	3,691
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	829,936

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(1) HKFRS 9 *Financial Instruments* – Impact of adoption (Continued)

(b) Impairment of financial assets (Continued)

(i) Trade receivables (Continued)

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by RMB26,582,000 for trade receivables. Note 3.1 (c) provides for details about the calculation of the allowance.

The loss allowance increased by a further RMB245,891,000 for trade receivables during the current reporting period.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

(ii) Other receivables

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses. The change of the impairment methodology to other receivables has immaterial impacts on the existing amount of loss allowances for other receivables as at 1 January 2018 and hence management has not made adjustments and the allowance of RMB3,902,000 was reversed in the current reporting period.

(iii) Financial assets at amortised cost

Impairment on wealth management products with principal and interests guaranteed are measured as 12-month expected credit losses. These wealth management products are acquired from large banks and the expected credit losses is immaterial. No loss allowance was made as at 1 January 2018. There is no wealth management products with principal and interests guaranteed as at 31 December 2018.

(iv) Debt instruments at FVOCI

Impairment on debt instruments at FVOCI is measured as 12-month expected credit losses. Most of these debt instruments are the bank acceptance notes for which the repayment are guaranteed by large banks, and the expected credit losses is immaterial. No loss allowance was made as at 1 January 2018 and 31 December 2017 and there is no further increase in the allowance in the current reporting period.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(1) HKFRS 9 *Financial Instruments* – Impact of adoption (Continued)

(b) Impairment of financial assets (Continued)

(v) Loans to related and third parties

The Group applies the HKFRS 9 general approach to providing for loans to the related and third parties. The Group uses the different degree of credit risk to determine the use of 12-month expected credit losses or lifetime expected credit loss to calculate the loss allowance.

Since the difference of loss allowance calculated under the new impairment model with the existing amount of loss allowance was immaterial, management has not made adjustments and a further increase in the allowance by RMB61,521,000 in the current reporting period.

(2) HKFRS 15 *Revenue from Contracts with Customers* – Impact of adoption

The Group has adopted HKFRS 15 *Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.2 below. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules retrospectively and with the cumulative effect on the date of initially application of HKFRS 15. In summary, the following adjustments were made to the amounts recognised in the statement of financial position at the date of initial application (1 January 2018):

	HKAS 18 carrying amount 31 December 2017	Reclassification	**HKFRS 15 carrying amount 1 January 2018**
Trade payables, other payables and other current liabilities:			
Advances from customers	2,744,023	(2,744,023)	**–**
Contract liabilities (a)	–	2,744,023	**2,744,023**
Amounts due to related parties:			
Advances from customers	14,014	(14,014)	**–**
Contract liabilities (a)	–	14,014	**14,014**

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group (Continued)

(2) HKFRS 15 *Revenue from Contracts with Customers* – Impact of adoption (Continued)

(a) Contract liabilities in relation to the deposits placed by the customers and related parties for securing their purchase orders were previously presented as advances from customers. Both contract liabilities and advances from customers are grouped under the same category of trade payables, other payables and other current liabilities and amounts due to related parties in the statement of financial position.

According to HKFRS 15, the income from the first time maintenance and transportation services are recognised as revenue upon such services are performed. As at 1 January 2018, the amounts of revenue from the first time maintenance and transportation services which services were not yet provided but recoginised as revenue in prior period are not material. Therefore, the Group did not make adjustments.

2.1.2 The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021 or earlier adoption when HKFRS 15 and HKFRS 9 being applied
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Venture	1 January 2019
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group: (Continued)

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB17,148,000 (Note 36(b)) The Group estimates that approximately 37% of these relate to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately RMB9,981,000 on 1 January 2019, lease liabilities of RMB9,918,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The Group expects that profit before income tax will decrease by approximately RMB134,000 for 2019 as a result of adopting the new rules.

For 2019, operating cash outflow will decrease and financing cash outflow will increase by approximately RMB 5,246,000 as repayment of the lease liabilities will be classified as cash flows from financing activities.

2.2 Principles of consolidation and equity accounting

(a) Subsidiaries

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(a) Subsidiaries (Continued)

(i) Consolidation (Continued)

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business comfbination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(a) Subsidiaries (Continued)

(i) Consolidation (Continued)

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(ii) Separate financial statements

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(b) Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profits less losses of investments accounted for using equity method' in the statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the statement of profit or loss.

(c) Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(c) Joint arrangements (Continued)

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

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

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors, while it delegates the executive committee of the Company ("Executive Committee") comprising all executive directors to execute its decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and bank balances are presented in the statement of profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of profit or loss within 'other gains – net'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(e) Foreign currency translation (Continued)

(iii) Group companies

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

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;

(b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(f) Land use rights

All land in the People's Republic of China (the "PRC") is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The upfront prepayments made for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised in profit or loss on a straight-line basis over the period of the rights. The land use rights are stated at historical cost less accumulated amortisation and impairment losses.

(g) Property, plant and equipment

Property, plant and equipment include buildings, machinery, vehicles, furniture, fittings and equipment. All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

–	Buildings	8-35 years
–	Machinery	8-15 years
–	Furniture, fittings and equipment	4-18 years
–	Vehicles	5-8 years

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings, costs of plant and machinery and borrowing costs recognised. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to relevant category within property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(j)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains – net' in the statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(h) Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the statement of profit or loss as part of a valuation gain or loss in 'other gains – net'.

When an owner-occupied property becomes an investment property carried at fair value, the Group applies HKAS 16 up to the date of change in use. The Group treats any difference at that date between the carrying amount of the property in accordance with HKAS 16 and its fair value in the same way as a revaluation in accordance with HKAS 16. In other words, any resulting increase in the carrying amount is treated as follows:

(i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss.

(ii) any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity.

(i) Intangible assets

(i) Proprietary technology

Separately acquired proprietary technology is initially recorded at purchase cost. Proprietary technology recognised from development expenditures is recorded at costs incurred on development projects. Proprietary technology has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of proprietary technology over their estimated useful lives of 6 to 10 years.

(ii) Computer software

Acquired computer software licenses are initially capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software licences are subsequently carried at cost less accumulated amortisation and impairment. The costs are amortised using the straight-line method over their estimated useful lives of 2 to 5 years.

The amortisation period and amortisation method of intangible assets are reviewed at each reporting period. The effects of any revision are recognised as profit or loss when the changes arise.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(j) Impairment of investments in subsidiaries, associates, joint ventures and other non-financial assets

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

(k) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

Non-current assets classified as held for sale is presented separately from the other assets in the statement of financial position.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(l) Investments and other financial assets

(i) Classification

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

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

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(l) Investments and other financial assets (Continued)

(iii) Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(l) Investments and other financial assets (Continued)

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 22 for further details.

(v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 the Group classifies its financial assets in the following categories:

- Assets carried at amortised cost; and
- Assets classified as available for sale.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition.

Assets carried at amortised cost

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(l) Investments and other financial assets (Continued)

(v) Accounting policies applied until 31 December 2017 (Conitnued)

Assets carried at amortised cost (Conitnued)

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

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

Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(n) Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(o) Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

(p) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

(q) Trade and other payables

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

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred.

Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

(s) Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

(t) Current and deferred income tax

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

(i) Current income tax

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(t) Current and deferred income tax (Continued)

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the date of statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(iii) Offsetting

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(u) Employee benefits

The Group operates various post-employment schemes, including defined benefit and defined contribution pension plans and post-employment medical plans.

(i) Pension obligations

The liability or asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(u) Employee benefits (Continued)

(i) Pension obligations (Continued)

For employees in Mainland China:

The Group operates defined contribution plans which are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans at rates ranging from 20% to 23%, dependent on the applicable local regulations, of the employees' basic salary. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

For employees in Hong Kong:

The Group operates defined contribution mandatory provident fund retirement benefits schemes (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. For those employees who are eligible to participate in the MPF Scheme, contributions are made based on a percentage of the employees' basic salaries and charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

(ii) Profit sharing and bonus plan

The Group recognises a liability and an expense for profit-sharing and bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(u) Employee benefits (Continued)

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(iv) Other post-employment obligations

For employees who formally retired before 1 May 2002, the Group is committed to pay fixed benefit to these employees on a monthly basis. For employees who retired after 1 May 2002, the Group has no further payment obligations. The Group accounts for such post-employment benefit costs by using the accounting basis similar to a defined benefit plan as disclosed above.

The Group's entities operating in Ji'nan City have provided post-retirement healthcare benefits to their employees joining the entities before 1 March 2006. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The discounting rates of the calculation of the present value of the past-employment benefits obligation are the interest-rates of Chinese government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

On 1 March 2006, with the approval of governmental authorities, the Group's entities operating in Ji'nan joined the social medical insurance plan. According to the relevant regulations, the defined contributions that should be borne by the Group's entities are calculated based on 8% of the total salary of employees, subject to certain ceiling, and are paid to the Ji'nan labor and social welfare authorities. Under the social medical insurance plan, the Group has been relieved from obligation for post-employment healthcare benefits beyond the contributions made, except for the obligation in connection with the contributions to the social medical security plan for the employees of Sinotruk Ji'nan Truck Co., Ltd., whose employment is terminated before the normal retirement dates.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(u) Employee benefits (Continued)

(v) Housing funds

Full-time employees of the Group in Mainland China are entitled to participate in various government-supervised housing funds. The Group contributes on a monthly basis to these funds based on the rates ranging from 5% to 12% of the basic salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(v) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

(w) Government assistance and grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(x) Revenue recognition

(i) Sales of goods

The Group manufactures and sells a range of heavy duty trucks, light duty trucks and related key parts and components, including engines, cabins, axles, steel frames and gearboxes in the market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(y) Revenue recognition (Continued)

(i) Sales of goods (Continued)

Dealers

Sales are recognised when control of the products has transferred, being when the products are delivered to the dealers, the dealer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the dealer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the dealer, and either the dealer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision, see Note 32.

End user customers

The Group also sells its products directly to end user customers. Revenue from the sales of products is recognized when the products are delivered and the Group receives sales and acceptance confirmations from end user customers. The risk of obsolescence and loss are not transferred to the customers until the Group receives these confirmations.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision, see Note 32.

(ii) Rendering of services

Revenue from the rendering of services is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual services provided as a proportion of the total services to be provided.

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

(iv) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(y) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

(z) Dividend income

Dividends are received from financial assets measured at FVPL and at FVOCI (2017 – from financial assets at FVPL and AFS). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

(aa) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) As a lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(ii) As a lessor

When assets are leased out under an operating lease, the assets are included in the consolidated statement of financial position based on the nature of the assets.

Lease income is recognised over the term of the lease on a straight-line basis.

(ab) Dividend distribution

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(ac) Research and development

Research expenditures are recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) It is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) Management intends to complete the intangible asset and use or sell it;

(iii) There is an ability to use or sell the intangible asset;

(iv) It can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(vi) The expenditure attributable to the intangible asset during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the intangible asset include the development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its estimated useful life.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(ad) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(ae) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 *Financial Instruments* and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 *Revenue from Contracts with Customers*.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

Financial risk management is carried out by the financial department. The financial department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. The major foreign exchange risk exposure arises from its exporting and importing activities as well as the financing activities in Hong Kong. Accordingly, the Group has certain financial assets at fair value through profit or loss, trade and other receivables, amounts due from related parties, cash and bank balances, trade and other payables and amounts due to related parties denominated in foreign currencies, mainly US Dollar ('USD'), Hong Kong Dollar ('HKD') and EURO, which are exposed to foreign currency translation risk. Details of the Group's financial assets and liabilities dominated in foreign currencies are disclosed in Notes 21, 22, 24, 27 and 38(b) respectively.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts to reduce the foreign exchange risk. During the year, the Group did not use any forward contracts.

During the year, the following foreign-exchange related amounts were recognised in profit or loss.

	2018	2017
Amounts recognised in profit or loss		
Net foreign exchange gains/(losses) included in other gains-net	**46,286**	(57,593)
Exchange gains/(losses) on foreign currency cash and bank balances included in finance costs	**53,196**	(95,644)
Total net foreign exchange gains/(losses) recognised in profit before income tax for the year	**99,482**	(153,237)

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

As at 31 December 2018, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, profit before income tax for the year would have been approximately RMB156,776,000 (2017: RMB209,925,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated trade and other receivables, amounts due from related parties, cash and bank balances, trade and other payables, and amounts due to related parties.

As at 31 December 2018, if RMB had strengthened/weakened by 5% against the EURO with all other variables held constant, profit before income tax for the year would have been approximately RMB6,280,000 (2017: RMB6,486,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EURO-denominated trade and other receivables, amounts due from related parties, cash and bank balances.

As at 31 December 2018, if RMB had strengthened/weakened by 5% against the HKD with all other variables held constant, profit before income tax for the year would have been approximately RMB4,496,000 (2017: RMB5,554,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated trade and other receivables, financial assets at fair value through profit or loss, cash and bank balances, trade and other payables, and amounts due to related parties.

(b) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than financing receivables, bank deposits and borrowings. Certain borrowings bearing floating rates, expose the Group to cash flow interest-rate risk. Financing receivables, bank deposits and borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's financing receivables, deposits, deposits taking and borrowings been disclosed in Notes 22, 24, 28 and 38(b) respectively.

The Group has not used any financial instrument to hedge its exposure to cash flow and fair value interest rate risks.

As at 31 December 2018, all bank borrowings of the Group were with fixed rate. Accordingly, if the interest rates on bank borrowings had been 150 basis points higher/lower than the average coupon interest rate of 4.11% (2017: 4.23%) per annum as at 31 December 2018 with all other variables held constant, profit before income tax for the year would have been RMB19,421,000 (2017: RMB3,531,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings with fixed rates.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk

The carrying amounts of financial assets at fair value through other comprehensive income (Note 19), financial assets at amortised cost (Note 20), financial assets at fair value through profit and loss (Note 21), receivables and other assets excluding prepayments (Note 22), cash and bank balances (Note 24), and amounts due from related parties (Note 38 (b)) represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) Impairment of financial assets

The Group has four types of financial assets that are subject to the expected credit loss model:

- Trade and other receivables;
- Loans to related and third parties;
- Financial assets at amortised cost; and
- Debt instruments at FVOCI.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial. In addition, for selecting bank and financial institutions, the Group has policies that deposits are normally put in reputable banks.

Trade receivables

The Group generally requires customers to pay a certain amount of deposits when orders of trucks are made. Majority of the sales transactions are settled by cash, bank draft or letter of credit. The Group also accepts acceptance notes with maturity within 12 months. The Group performs credit assessment on customers before making credit sales to customers and credit risks in connection with trade receivables are monitored on an on-going basis. Credit sales are made to selected customers with good credit history. The granting or extension of any credit period must be approved by the general manager of the respective Group companies.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

Trade receivables (Continued)

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses the lifetime expected loss allowance for all trade receivables.

The expected loss rates are based on the payment profiles of sales over a period of 48 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 on adoption of HKFRS 9 was determined as follows for both trade receivables:

31 December 2018	Less than 1 year	1 – 2 years	2 – 3 years	More than 3 years	Total
Gross carrying amount	5,084,387	336,244	79,262	607,614	6,107,507
Loss allowance	335,790	55,917	77,090	596,626	1,065,423
Expected loss rate	6.60%	16.63%	97.26%	98.19%	

1 January 2018	Less than 1 year	1 – 2 years	2 – 3 years	More than 3 years	Total
Gross carrying amount	4,803,076	126,071	85,824	573,152	5,588,123
Loss allowance	186,139	27,730	46,343	569,724	829,936
Expected loss rate	3.88%	22.00%	54.00%	99.40%	

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

Trade receivables (Continued)

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Loss allowances
At 31 December 2017 – calculated under HKAS 39	803,354
Amounts restated through opening retained earnings	22,891
Amounts restated through opening non-controlling interests	3,691
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	829,936
Provision for receivable impairment	245,891
Receivables written off during the year as uncollectible	(10,404)
At 31 December 2018	1,065,423

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

Trade receivables (Continued)

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or late payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Loans to related and third parties

From the commencement date of HKFRS 9 on 1 January, 2018, the measurement of the expected credit loss allowance for financing receivables is an area that requires the use of models and assumptions about future economic conditions and credit behavior of clients (such as the likelihood of customers defaulting and the resulting losses).

The Group has applied a 'three-stage' impairment model for expected credit losses ("ECL") measurement based on changes in credit quality since initial recognition of financing receivables as summarised below:

- A financing receivable that is not credit-impaired on initial recognition is classified in"Stage 1" and has its credit risk continuously monitored by the Group;
- If a significant increase in credit risk ("SICR") since initial recognition is identified but is not yet deemed to be credit-impaired, the financing receivable is moved to "Stage 2"; and
- If the financing receivables is credit-impaired, the financing receivable is then moved to"Stage 3".

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For the year ended 31 December 2018
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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

Loans to related and third parties (Continued)

Stage 1: The Group measures the loss allowance for a financing receivable at an amount equal to the next 12 months ECL; Stages 2 and 3: The Group measures the loss allowance for a financing receivable at an amount equal to the lifetime ECL.

For such financing receivables classified under Stages 1 and 2, management assesses credit loss allowances using the risk parameter modelling approach that incorporates key parameters, including probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). For credit-impaired financing receivables classified under Stage 3, management assesses the credit loss allowances by estimating the cash flows expected to arise from the financing receivables after taking into consideration forward looking factors.

The measurement of ECL adopted by management according to HKFRS 9, involves judgements, assumptions and estimations.

- Selection of the appropriate models and assumptions;
- Determination of the criteria for SICR; and
- Establishment of the number and relative weightings of forward-looking scenarios.

Measuring ECL – inputs, assumptions and estimation techniques

The ECL are measured on either a 12-month (12M) or Lifetime basis depending on whether SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired.

ECL are the discounted product of PD having considered the forward-looking impact, LGD, and EAD:

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation;
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure; and
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

The criteria of SICR

The Group evaluates the financing receivables at each date of statement of financial position after considering whether SICR has occurred since initial recognition. An ECL allowance for financing receivables is recognised according to the stage of ECL, which reflects the reasonable information and evidence available about the SICR and is also forward-looking.

The Group considers the financial receivable to have experienced SICR when one or more of the quantitative criteria and qualitative criteria have been met in credit risk since initial recognition. The criteria includes that the borrower is more than 30 days past due on its contractual payments, the change of credit risk categories and other indicators show that have experience any significant increase in credit risk.

Definition of credit-impaired assets

The Group considers whether a financing receivable is credit-impaired based on quantitative criteria and qualitative criteria. The Group defines a financing receivable as credit-impaired, which is fully aligned with the definition of in default, when it meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- Internal credit rating as defaulting rate;
- The debtor is in significant financial difficulty; and
- It is becoming probable that the debtor will enter bankruptcy or other financial restructure.

When a financial asset is considered to be credit-impaired, it may be from multiple events, not due to a separately identifiable event.

Forward-looking information

The assessment of SICR and the calculation of ECL incorporate forward-looking information. The Group has analysed historical data and identified the key economic variables impacting credit risk and ECL for each financing receivable portfolio. Key economic variables include the growth rate of domestic GDP and the growth rate of producer price index. The impact of these economic variables on the PD has been determined by performing historical statistical regression analysis to forecast the expected changes in these variables on PD. In addition to the base economic scenario, the Group also identifies other possible scenarios along with scenario weightings. The number of scenarios and their attributes are reassessed at each date of statement of financial position. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

Forward-looking information (Continued)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

Provision for impairment of financing receivables

The following tables explain the changes in the provision for impairment of financing receivables between the beginning and the end of the year:

	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Provision for impairment of financing receivables at 1 January 2018	107,869	53	12,374	120,296
Increase	24,326	15,138	22,057	61,521
Written off	—	—	(4,200)	(4,200)
Provision for impairment of financing receivables as at 31 December 2018	132,195	15,191	30,231	177,617

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

Net impairment losses on receivables and other assets recognised in profit or loss.

During the year, the following provisions/(reverse) of impairment losses were recognized in profit or loss in relation to impaired financial assets:

	2018	2017
The provisions/(reverse) of impairment losses		
– the provision of impairment losses on trade receivables	**245,891**	—
– the provision of impairment losses on financing receivables	**61,521**	—
– reverse of impairment losses on other receivables	**(3,902)**	—
Net impairment losses on financial assets	**303,510**	—

(ii) Financial assets at fair value through profit or loss

The entity is also exposed to credit risk in relation to debt investments and equity investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments.

The Group enters into the wealth management products contracts with relatively higher estimated yield rates with certain financial institutions. As at 31 December 2018, most of the wealth management products are principal preservation and bought from the major financial institutions in Mainland China. Management has exercised due care when makes investment decision with focus only on relatively low risk products and considers its loss allowance is immaterial.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(d) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and bank balances, together with adequate banking facilities. Details of the undrawn borrowing facilities available to the Group are disclosed in Note 28.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the date of statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Repayment period			
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Total
As at 31 December 2018				
Borrowings	**3,000,000**	**–**	**–**	**3,000,000**
Interest payments on borrowings (i)	**54,707**	**–**	**–**	**54,707**
Trade and other payables	**25,068,638**	**–**	**–**	**25,068,638**
Amounts due to related parties	**459,973**	**–**	**–**	**459,973**
Interests payments on borrowings from related parties	**1,540**	**–**	**–**	**1,540**
	28,584,858	**–**	**–**	**28,584,858**
As at 31 December 2017				
Borrowings	3,990,000	–	–	3,990,000
Interest payments on borrowings (i)	66,947	–	–	66,947
Trade and other payables	25,095,195	–		25,095,195
Amounts due to related parties	1,402,371	–	–	1,402,371
Interests payments on borrowings from related parties	1,506	–	–	1,506
	30,556,019	–	–	30,556,019

(i) The interests on borrowings are calculated based on borrowings held as at the dates of statement of financial position (excluding the accrued interest payable balance in trade and other payable) without taking into account of future issues. Floating-rate interest is estimated using current interest rate as at the dates of statement of financial position.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt includes total borrowings (including current and non-current borrowings) and borrowings from related parties less fixed deposits, security for impawned bank loans and cash and cash equivalent. Total capital is calculated as total equity as shown in the consolidated statement of financial position plus net debt.

	As at 31 December 2018	As at 31 December 2017
Total borrowings (Note 28)	**3,000,000**	3,990,000
Borrowings due to related parties (Note 38(b))	**36,000**	36,000
Less: cash and cash equivalents (Note 24(b))	**(12,615,994)**	(9,840,149)
Net debt	**(9,579,994)**	(5,814,149)
Total equity	**28,327,852**	25,430,711
Total capital	**18,747,858**	19,616,562
Gearing ratio	**Not applicable**	Not applicable

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at 31 December 2018 and 2017.

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Assets				
Financial assets at fair value through profit or loss	**103,544**	**1,458,268**	**690,056**	**2,251,868**
Financial assets at fair value through other comprehensive income	**—**	**—**	**2,560,983**	**2,560,983**
Total assets	**103,544**	**1,458,268**	**3,251,039**	**4,812,851**
As at 31 December 2017				
Assets				
Financial assets at fair value through profit or loss	128,306	653,675	—	781,981
Available-for-sale financial assets – Wealth management product	—	—	2,507,681	2,507,681
Total assets	128,306	653,675	2,507,681	3,289,662

During the year ended 31 December 2018, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets.

During the year ended 31 December 2018, except for the reclassification of financial assets under the adoption of new standards of HKFRSs, there were no reclassifications of financial assets, no transfers among different levels and no other changes in valuation techniques.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

Level 1 financial assets at fair value through profit or loss comprises equity securities traded in The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange. Their fair values are based on closing prices.

Level 2 financial assets at fair value through profit or loss comprise wealth management products acquired from banks with principal preservation and floating return. The investment principals are RMB1,450 million and interest rates are determined based on the range of foreign exchange rate of AUD/USD, interest rate of USD 3M-LIBOR or price of gold that are quoted in active market.

Level 3 financial assets at fair value through profit or loss include wealth management products acquired from a trust company at a principal of RMB152 million and from banks at principals of RMB 520 million respectively with principal and interests non-guaranteed. Their fair values are estimated by using a discounted cash flow approach and main inputs used by the Group are estimated yield rates written in contracts by the counterparties.

Level 3 financial assets at fair value through other comprehensive income include equity investments that are not publicly traded, the Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each date of statement of financial position. In connection with the investments in shares, the Group adopts a combination of income and market approaches. The income approach adopts a discounted cash flow method to assess the fair value of these financial assets. Under this methodology, fair value is determined by discounting the projected cash flow of the investee company to present worth based on profit and cash flows forecast and other relevant information provided by the investee company. The market approach adopts various sales/income multiples to assess the fair value of these financial assets. Under this methodology, fair value is determined by multiplying various sales/income of the investee company to multipliers with regard to the risks and nature of the business.

Level 3 financial assets at fair value through other comprehensive income comprise bank and commercial acceptance notes that are held for collection of contractual cash flow and for selling the financial assets. The fair values are estimated by using a discounted cash flow approach with discount rates quoted in main state-owned bank.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) Income taxes

The Group is subject to income taxes in various jurisdictions and certain companies within the Group are subject to preferential tax rates (Note 12). Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such difference will impact the recognition of deferred income tax assets and taxation in the period in which such estimate is changed.

(b) Warranty claims provision

The Group generally offers warranties with period from 6 months to 24 months for its trucks and engines. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labor costs.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition as at the date of statement of financial position and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each date of statement of financial position.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(d) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(e) Impairment and useful lives of property, plant and equipment

The Group follows the guidance of HKAS 36 to determine when property, plant and equipment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, internal and external source information, including but not limited to whether:

(i) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;

(ii) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;

(iii) Evidence is available of obsolescence or physical damage of an asset; and

(iv) Evidence is available from internal reporting which indicates that the economic performance of an asset is, or will be, worse than expected.

Management estimates useful lives of the property, plant and equipment by reference to the Group's assets management policy, the industry practice, and technical or commercial obsolescence arising from changes or improvements in the market. The depreciation expense will be significantly affected by the useful lives of the property, plant and equipment as estimated by management.

(f) Impairment of the Group's assets

The Group follows the guidance of HKAS 36 to determine whether the Group's assets are impaired. As stated in HKAS 36, the equity attributable to owners of an entity that exceeds its market capitalisation is an impairment indicator which would require an estimate of the recoverable amount to be performed. As at 31 December 2018, the Group's market capitalisation of approximately RMB28,546 million, which is higher than the equity attributable to owners of the Company of approximately RMB25,586 million.

The Group has performed the impairment test according to HKAS 36 and determines that no asset or CGU has impairment.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(g) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique.

Details of the judgement and assumptions have been disclosed in Note 16.

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the board of directors, while it delegates the Executive Committee comprising all executive directors to execute its decisions. The Executive Committee reviews the Group's internal reporting in order to assess performance and allocate resources. The Executive Committee has determined the operating segments based on these reports.

The Executive Committee considers the business from both a geographic and business perspective. From a geographic perspective, the Executive Committee assesses the revenue from Mainland China and overseas. From a business perspective, the Executive Committee assesses the performance of heavy duty trucks, light duty trucks, engines and finance.

(i) Heavy duty trucks – Manufacture and sale of heavy duty trucks, medium-heavy trucks and related components;

(ii) Light duty trucks – Manufacture and sale of light duty trucks and related components;

(iii) Engines – Manufacture and sale of engines and related parts; and

(iv) Finance – Provision for deposits taking, borrowings, bills and notes discounting and entrustment loans to the members of the Group and the members of CNHTC and its subsidiaries excluding the Group ("CNHTC Group") and auto and supplier chain financing services.

The Executive Committee assesses the performance of the operating segments based on a measure of revenue and operating profit.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated expenses.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets are determined after deducting related allowance that are reported as direct offsets in the consolidated statement of financial position. Segment assets consist primarily of land use rights, investment properties, property, plant and equipment, intangible assets, inventories, investments accounted for using the equity method, financial assets at fair value through other comprehensive income, profit and loss and amortised cost, receivables and other assets, and operating cash (prior year: land use rights, investment properties, property, plant and equipment, intangible assets, inventories, investments accounted for using the equity method, available-for-sales financial assets, receivables and other assets, and operating cash). They exclude income tax assets.

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5. SEGMENT INFORMATION (CONTINUED)

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings and other liabilities that are incurred for financing rather than operating purpose unless the segment is engaged in financing activities. Segment liabilities do not include income tax liabilities.

Unallocated assets mainly represent deferred tax assets, prepaid tax and the assets of the Company. Unallocated liabilities mainly represent borrowings, deferred tax liabilities, current tax liabilities and the liabilities of the Company.

Capital expenditure comprises mainly additions to land use rights (Note 14), property, plant and equipment (Note 15), and intangible assets (Note 17), including additions resulting from acquisitions through business combinations.

Sales between segments are carried out on terms mutually agreed amongst these operating segments.

The segment results for the year ended 31 December 2018 as follows:

	Year ended 31 December 2018					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Elimination	Total
Revenue from external customers						
Sales of goods	47,690,661	11,043,604	1,287,919	–	–	60,022,184
Provision of financing services	–	–	–	987,993	–	987,993
Rendering of services	753,707	3,233	17,550	–	–	774,490
Total revenue from external customers	48,444,368	11,046,837	1,305,469	987,993	–	61,784,667
Inter-segment revenue	350,137	397,713	12,806,027	427,447	(13,981,324)	–
Total Segment revenue	48,794,505	11,444,550	14,111,496	1,415,440	(13,981,324)	61,784,667
Operating profit before unallocated expenses	2,268,497	377,123	2,212,951	851,103	(22,821)	5,686,853
Unallocated expenses						(44,710)
Operating profit						5,642,143
Finance costs – net						(74)
Share of profit less loss of investments accounted for using the equity method						70,351
Dilution gain on investment in an associate						6,283
Profit before income tax						5,718,703
Income tax expense						(993,058)
Profit for the year						4,725,645

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5. SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2017 are as follows:

	Year ended 31 December 2017					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Elimination	Total
Revenue from external customers						
Sales of goods	44,455,157	8,500,823	1,068,917	—	—	54,024,897
Provision of financing services	—	—	—	669,264	—	669,264
Rendering of services	731,289	4,692	27,786	—	—	763,767
Total revenue from external customers	45,186,446	8,505,515	1,096,703	669,264	—	55,457,928
Inter-segment revenue	378,698	420,590	13,609,053	462,743	(14,871,084)	—
Total Segment revenue	45,565,144	8,926,105	14,705,756	1,132,007	(14,871,084)	55,457,928
Operating profit before unallocated expenses	1,507,123	231,737	2,351,064	546,266	(351,568)	4,284,622
Unallocated expenses						(13,040)
Operating profit						4,271,582
Finance costs – net						(261,593)
Share of profit less loss of investments accounted for using the equity method						45,444
Profit before income tax						4,055,433
Income tax expense						(719,538)
Profit for the year						3,335,895

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5. SEGMENT INFORMATION (CONTINUED)

Other segment items included in profit or loss for the year ended 31 December 2018 are as follows:

	Year ended 31 December 2018					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Unallocated	Total
Depreciation	392,361	144,695	539,701	1,653	44	1,078,454
Amortisation of intangible assets and land use rights	42,508	11,116	47,929	468	19	102,040

Other segment items included in profit or loss for the year ended 31 December 2017 are as follows:

	Year ended 31 December 2017					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Unallocated	Total
Depreciation	427,534	153,240	570,604	1,065	45	1,152,488
Amortisation of intangible assets and land use rights	37,667	9,645	47,966	415	19	95,712

The segment assets and liabilities as at 31 December 2018 and the segment capital expenditure for the year then ended are as follows:

	As at 31 December 2018					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Unallocated	Total
Segment assets	42,217,468	5,161,705	17,670,474	33,838,256	1,446,126	100,334,029
Elimination						(38,653,618)
Total assets						61,680,411
Segment liabilities	24,862,912	4,040,822	6,729,186	27,074,651	2,868,916	65,576,487
Elimination						(32,223,928)
Total liabilities						33,352,559
Segment capital expenditure	512,070	220,059	819,780	2,344	–	1,554,253

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5. SEGMENT INFORMATION (CONTINUED)

Reconciled to entity assets and liabilities as follows:

	As at 31 December 2018	
	Assets	Liabilities
Segment assets/liabilities after elimination	60,234,285	30,483,643
Unallocated:		
Deferred tax assets/liabilities	1,413,518	41,056
Current tax assets/liabilities	3,006	284,642
Current borrowings	—	2,536,000
Other assets/liabilities of the Company	29,602	7,218
Total	61,680,411	33,352,559

The segment assets and liabilities as at 31 December 2017 and the segment capital expenditure for the year then ended are as follows:

	As at 31 December 2017					
	Heavy duty trucks	Light duty trucks	Engines	Finance	Unallocated	Total
Segment assets	48,994,733	5,278,752	17,332,626	15,258,637	1,621,239	88,485,987
Elimination						(27,302,971)
Total assets						61,183,016
Segment liabilities	32,817,847	3,349,943	7,117,232	10,196,819	3,644,201	57,126,042
Elimination						(21,373,737)
Total liabilities						35,752,305
Segment capital expenditure	451,412	95,428	694,520	3,448	—	1,244,808

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5. SEGMENT INFORMATION (CONTINUED)

Reconciled to entity assets and liabilities as follows:

	As at 31 December 2017	
	Assets	Liabilities
Segment assets/liabilities after elimination	59,561,777	32,108,104
Unallocated:		
Deferred tax assets/liabilities	1,484,254	51,398
Current tax assets/liabilities	3,428	395,068
Current borrowings	—	3,190,000
Other assets/liabilities of the Company	133,557	7,735
Total	61,183,016	35,752,305

Revenue is allocated based on the countries in which the customers are located.

	2018	2017
Revenue		
Mainland China	**54,394,928**	48,462,394
Overseas	**7,389,739**	6,995,534
	61,784,667	55,457,928

Total assets are allocated based on where the assets are located.

	2018	2017
Total assets		
Mainland China	**59,758,643**	59,632,527
Overseas	**1,921,768**	1,550,489
	61,680,411	61,183,016

(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

Non-current assets excluding deferred income tax assets are allocated based on where the assets are located.

	2018	2017
Non-current assets other than deferred income tax assets		
Mainland China	**15,066,963**	14,494,677
Overseas	**892,307**	793,555
	15,959,270	15,288,232

Capital expenditure is allocated based on where the assets are located.

	2018	2017
Capital expenditure		
Mainland China	**1,539,728**	1,244,151
Overseas	**14,525**	657
	1,554,253	1,244,808

The Group has recognised following liabilities related to contracts with customers:

	As at 31 December 2018	As at 1 January 2018
Heavy duty trucks	**1,797,403**	**2,191,867**
Light duty trucks	**518,976**	**542,827**
Engines	**32,787**	**23,343**
Total contract liabilities	**2,349,166**	**2,758,037**

All contract liabilities as at 1 January 2018 have been recognized as revenue during the year ended 31 December 2018.

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6. EXPENSES BY NATURE

	2018	2017
Materials cost (Note 23)	**45,529,719**	40,307,297
Employee benefit expenses (Note 8)	**3,853,211**	3,718,599
Transportation expenses	**1,321,801**	1,362,327
Depreciation of property, plant and equipment (Note 15)	**1,078,454**	1,152,488
Subcontracting costs	**889,390**	783,440
Warranty expenses (Note 32)	**854,578**	1,082,619
Utilities expenses	**821,304**	863,451
Maintenance costs	**527,403**	521,914
Travel and office expenses	**338,584**	325,520
Provision for impairment of trade and other receivables	**–**	234,392
Transaction taxes	**200,632**	203,483
Write-down of inventories to net realisable value (Note 23)	**179,649**	222,646
Advertising costs	**100,613**	56,252
Amortisation of intangible assets (Note 17)	**63,548**	57,105
Rental expenses	**52,642**	56,400
Amortisation of land use rights (Note 14)	**38,492**	38,607
Exhibition expenses	**37,376**	59,487
Auditors' remuneration		
– Financial audit services	**10,000**	13,562
– Internal control audit services	**500**	755
– Taxation professional services	**300**	388
– Environmental, social and governance report services	**200**	300
– Financial information reporting services	**–**	10
Other charges	**633,988**	549,183
Total	**56,532,384**	51,610,225
Representing:		
Cost of sales	**50,610,072**	45,429,858
Distribution costs	**3,021,155**	3,228,577
Administrative expenses	**2,901,157**	2,951,790
Total	**56,532,384**	51,610,225

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7. OTHER GAINS – NET

	2018	2017
Gains on disposal of property, plant and equipment (Note 34(a))	**3,894**	8,269
Fair value gains on investment properties (Note 16 and Note 34(a))	**3,221**	18,972
Losses on disposal of intangible assets (Note 34(a))	**(29)**	—
Gains on disposal of a subsidiary	**—**	51,553
Gains on disposal of an associate	**—**	1,016
Dividends received from financial assets at fair value through other comprehensive income (Note 34(a))	**2,250**	—
Dividends received from financial assets at fair value through profit or loss	**1,354**	2,313
Fair value (losses)/gains on financial assets at fair value through profit or loss (Note 21(b) and Note 34(a))	**(25,882)**	22,138
Gains on disposal of financial assets at fair value through profit or loss (Note 34(a))	**119,335**	27,546
Dividends received from available-for-sale financial assets	**—**	2,047
Interests received from available-for-sale financial assets (Note 34(a))	**—**	8,721
Gains on disposal of available-for-sale financial assets (Note 34(a))	**—**	109,102
Gains on disposal of wealth management products with principal and interests guaranteed (Note 34(a))	**27,912**	21,670
Gains on disposal of assets classified as held for sale	**63,087**	—
Government grants	**194,915**	93,961
Penalties income	**102,582**	—
Disposal of scraps	**41,580**	15,909
Rental income	**36,409**	29,287
Foreign exchange gains/(losses) – net	**46,286**	(57,593)
Others	**76,456**	68,968
Total	**693,370**	423,879

Government grants were contributed from various government organisations to the Group in respect of relocation compensations, subsidies for research and development, overseas promotion activities and other incentives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. EMPLOYEE BENEFIT EXPENSES

	2018	2017
Salaries, wages and bonuses	2,828,644	2,785,475
Contributions to pension plans	448,308	421,871
Termination benefits (Note 30 (a))	(440)	8,756
Post-employment benefits (Note 30 (b))	250	220
Medical insurance plans (Note 30 (c))	16	19
Housing benefits	233,945	186,472
Other welfare expenses	342,488	315,786
Total (Note 6)	3,853,211	3,718,599

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2017: four) directors of the Company ("Director(s)") whose emoluments are reflected in the analysis in Note 40. The emoluments payable to the remaining one (2017: one) individual during the year are as follows:

	2018	2017
Basic salaries, housing allowances and other allowances	1,113	1,149
Contribution to pension plans	55	57
	1,168	1,206

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands (in HKD)		
HKD 1,000,001 – HKD 1,500,000	1	1

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9. FINANCE COSTS – NET

	2018	2017
Finance costs:		
– Borrowings	143,785	245,898
– Interest expenses on notes receivable discounted	–	5,865
– Net foreign exchange transaction (gains)/losses	(53,196)	95,644
	90,589	347,407
Less: amount capitalized in construction in progress (Note 15(b))	(1,245)	(4,479)
Total finance costs	89,344	342,928
Finance income:		
– Interest income from bank deposits (Note 34(a))	(89,270)	(81,335)
Finance costs – net	74	261,593

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10. SUBSIDIARIES

As at 31 December 2018, the Company had direct or indirect interest in the following subsidiaries:

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Ownership interest directly held by the Company	Ownership interest held by the Group	Ownership interest held by non-controlling interests
Listed -						
Sinotruk Ji'nan Truck Co., Ltd. (中國重汽集團濟南卡車股份有限公司)	PRC, Joint stock company with limited liability	Manufacture and sales of trucks and spare parts in PRC	RMB671.08	63.78%	63.78%	36.22%
Unlisted –						
Sinotruk Ji'nan Power Co., Ltd. (中國重汽集團濟南動力有限公司)	PRC, Limited liability company	Manufacture and reproduction of engines in PRC	RMB6,713.08	100%	100%	–
Sinotruk Ji'nan Commercial Truck Co., Ltd. (中國重汽集團濟南商用車有限公司)	PRC, Limited liability company	Manufacture and sales of trucks and spare parts in PRC	RMB1,871.29	100%	100%	–
Sinotruk International (中國重汽國際有限公司)	PRC, Limited liability company	Import and export of trucks and spare parts in PRC	RMB555	100%	100%	–
Sinotruk Ji'nan Ganghua Import & Export Co., Ltd. (中國重汽集團濟南港華進出口有限公司)	PRC, Limited liability company	Import and export of heavy duty trucks in PRC	RMB206	100%	100%	–
Sinotruk Factory Design Institute Co., Ltd. (中國重汽集團設計研究院有限公司)	PRC, Limited liability company	Construction design and technical consulting service in PRC	RMB10.5	100%	100%	–
Sinotruk (Hong Kong) International Investment Limited (中國重汽(香港)國際資本有限公司)	Hong Kong, Limited liability company	Consultations and strategic planning in respect of automobile market, import and export trading, asset operations and investment holdings in Hong Kong	HKD 3,266.92	100%	100%	–
Sinotruk Finance Co., Ltd. (中國重汽財務有限公司) (i)	PRC, Limited liability company	Taking deposits, facilitating borrowings, discounting notes, providing entrusted loan, entrusted investment and customer credit in PRC	RMB3,050	51.33%	94.65%	5.35%
Sinotruk Ji'nan Axle & Transmission Co., Ltd. (中國重汽集團濟南橋箱有限公司)	PRC, Limited liability company	Manufacture and sales of trucks and axle and transmission parts in PRC	RMB646.74	49%	81.53%	18.47%
ShanDong HOWO Auto Finance Co., Ltd. (山東豪沃汽車金融有限公司) (ii)	PRC, Limited liability company	Taking deposits, facilitating borrowings and financing leases, providing loan and customer credit in PRC	RMB1,500	63.33%	83.33%	16.67%

(i) In September 2018, Sinotruk Ji'nan Power Co., Ltd., the subsidiary of the Company, acquired an additional 0.16% equity of Sinotruk Finance Co., Ltd. for a purchase consideration of RMB6.79 million from non-controlling interest. Consideration has not been paid yet as at 31 December 2018.

(ii) In May and December 2018, the Group had made capital injection to ShanDong HOWO Auto Finance Co., Ltd. for amount of RMB957 million and RMB116 million, respectively in cash. After capital injection, the Group holds its 83.33% equity.

10. SUBSIDIARIES (CONTINUED)

As at 31 December 2018, the Company had direct or indirect interest in the following subsidiaries: (Continued)

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Ownership interest directly held by the Company	Ownership interest held by the Group	Ownership interest held by non-controlling interests
Sinotruk Hangzhou Engines Co., Ltd. (中國重汽集團杭州發動機有限公司)	PRC, Limited liability company	Manufacture and reproduction of engines in PRC	RMB1,931	49%	100%	–
Sinotruk Chongqing Fuel System Co., Ltd. (中國重汽集團重慶燃油噴射系統有限公司)	PRC, Limited liability company	Manufacture and sales of oil pump and nozzle in PRC	RMB338.49	–	100%	–
Sinotruk Ji'nan Fuqiang Power Co., Ltd. (中國重汽集團濟南復強動力有限公司)	PRC, Limited liability company	Manufacture and reproduction of engines in PRC	USD 81.15	–	100%	–
Sinotruk Liuzhou Yunli Special Vehicles Co., Ltd. (中國重汽集團柳州運力專用汽車有限公司)	PRC, Limited liability company	Refit and sales of heavy duty trucks in PRC	RMB103	–	60%	40%
Ji'nan Ganghao Development Co., Ltd. (濟南港豪發展有限公司)	PRC, Limited liability company	Manufacture and sales of trucks and spare parts in PRC	HKD 1,503.7	–	100%	–
Hangzhou Ganghang Power System Co., Ltd. (杭州港杭動力系統有限公司)	PRC, Limited liability company	Manufacture and reproduction of engines in PRC	HKD60	–	100%	–
Sinotruk Hubei Huawei Special Vehicles Co., Ltd. (中國重汽集團湖北華威專用汽車有限公司)	PRC, Limited liability company	Refit and sales of heavy duty trucks in PRC	RMB62.77	–	60%	40%
Sinotruk Mianyang Special Vehicles Co., Ltd. (中國重汽集團綿陽專用汽車有限公司)	PRC, Limited liability company	Manufacture and reproduction of spare parts; sales of trucks in PRC	RMB50	–	100%	–
Sinotruk Ji'ning Commercial Truck Co., Ltd. (中國重汽集團濟寧商用車有限公司)	PRC, Limited liability company	Manufacture and sales of trucks and spare parts in PRC	RMB300	–	100%	–
Sinotruk Ji'nan Ganghao Bonded Logistics Co., Ltd. (中國重汽集團濟南港豪保税物流有限公司)	PRC, Limited liability company	Provision of storage services, bonded logistics services, local freight forwarding, related information consulting and logistics engineering; research, development, processing and manufacture of spare parts; import and export in PRC	USD16	–	100%	–

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10. SUBSIDIARIES (CONTINUED)

As at 31 December 2018, the Company had direct or indirect interest in the following subsidiaries: (Continued)

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Ownership interest directly held by the Company	Ownership interest held by the Group	Ownership interest held by non-controlling interests
Sinotruk Chengdu Wangpai Commercial Vehicles Co., Ltd. (中國重汽集團成都王牌商用車有限公司)	PRC, Limited liability company	Research, development, manufacture and sales of commercial vehicles in PRC	RMB800	–	80%	20%
Sichuan Sinotruk Wangpai Xingcheng Hydraulic Parts Co., Ltd. (四川重汽王牌興城液壓件有限公司)	PRC, Limited liability company	Manufacture and sales of spare parts, general machinery components, coal machinery, hard ware, chemicals, electromechanical equipment and metals in PRC	RMB10.1	–	80%	20%
Sinotruk Nanchong Haile Mechanies Co., Ltd. (中國重汽集團南充海樂機械有限公司)(iii)	PRC, Limited liability company	Research, development, manufacture and sales of auto parts, machinery components and coal mining mechanic equipment in PRC	RMB –	–	80%	20%
Chengdu Sinotruk Wangpai Automobile Testing Co., Ltd. (成都重汽王牌汽車檢測有限公司)	PRC, Limited liability company	Sales of spare parts and vehicle inspection in PRC	RMB2	–	80%	20%
Sinotruk Fujian Haixi Vehicles Co., Ltd. (中國重汽集團福建海西汽車有限公司)	PRC, Limited liability company	Manufacture and sales of trucks and spare parts and related information consulting in PRC	RMB200	–	80%	20%
Sinotruk Hangzhou Engines Sales Co., Ltd. (中國重汽集團杭州發動機銷售有限公司)	PRC, Limited liability company	Wholesale of engines and spare parts in PRC	RMB50	–	100%	–

(iii) The registered capital is RMB50 million and has not been paid. It will be fully paid on or before 31 December 2020.

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10. SUBSIDIARIES (CONTINUED)

As at 31 December 2018, the Company had direct or indirect interest in the following subsidiaries: (Continued)

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Ownership interest directly held by the Company	Ownership interest held by the Group	Ownership interest held by non-controlling interests
Sinotruk Xinjiang Commercial Truck Co., Ltd. (中國重汽集團新疆商用車有限公司)	PRC, Limited liability company	Research, development, manufacture and sales of spare parts (excluding engines) and trucks; after-sales service of trucks; import and export in PRC	RMB40	–	100%	–
Sinotruk Ji'nan Rubber & Plastic Components Co., Ltd. (中國重汽集團濟南橡塑件有限公司)	PRC, Limited liability company	Research, development, manufacture, sales and consulting of spare parts, engineering machinery and rubber products; maintenance and lease of machinery equipment in PRC	RMB240	–	100%	–
SINOTRUK RUS Limited Liability Company (中國重汽俄羅斯有限公司)	Russia, Limited liability company	Retail and wholesale of trucks and spare parts; agency of sales of motor vehicle and spare parts; after-sales service of trucks, cars and other motor vehicles in Russia	RUB15	–	100%	–
Sinotruk (Hong Kong) Capital Holding Limited (中國重汽(香港)投資控股有限公司)	Hong Kong, Limited liability company	Consultations and strategic planning in respect of automobile market, import and export trading, asset operations and investment holdings in Hong Kong	HKD310	–	100%	–

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10. SUBSIDIARIES (CONTINUED)

As at 31 December 2018, the Company had direct or indirect interest in the following subsidiaries: (Continued)

Company Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued/paid in capital (in million)	Ownership interest directly held by the Company	Ownership interest held by the Group	Ownership interest held by non-controlling interests
Sinotruk South Africa (Pty) Ltd. (中國重汽南非有限公司) (iv)	South Africa, Limited liability company	Retail and wholesale of trucks and spare parts; agency of sales of motor vehicle and spare parts; after-sales service of trucks and other motor vehicles in South Africa	USD4.3	–	100%	–
Sinotruk Liuzhou Yunli Kodiak Machinery Co., Ltd. (中國重汽集團柳州運力科迪亞克機械有限責任公司)	PRC, Limited liability company	Production, sales, and rendering service of snow removal equipment, and spreader multi-functional snow removal equipment and rail snow blower	USD3.5	–	30.6%	69.4%
Sinotruk Ji'nan Global Electronic Business Co., Ltd. (中國重汽集團濟南地球村電子商務有限公司)	PRC, Limited liability company	Commercial vehicles and automobile spare parts purchase, sales and wholesale;	RMB20	–	63.78%	36.22%
Sinotruk Kazakhstan Limited Liability Partnership (中國重汽哈薩克斯坦有限責任合夥公司)(v)	Kazakhstan, Limited liability partnership	Retail and wholesale trade of automobile; maintenance and service of automobile	Tenge61.5	–	100%	–

(iv) Sinotruk (Hong Kong) International Investment Limited, a subsidiary of the Company, injected USD3.3 million in cash in Sinotruk South Africa (Pty) Ltd during the year.

(v) Sinotruk (Hong Kong) Capital Holding Limited, a subsidiary of the Company, injected USD0.14 million in cash in Sinotruk Kazakhstan Limited Liability Partnership during the year.

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10. SUBSIDIARIES (CONTINUED)

(a) Material non-controlling interests

As at 31 December 2018, the total non-controlling interests is RMB2,852,307,000 (2017: RMB2,673,248,000), of which RMB1,845,759,000 (2017: RMB1,706,841,000) is attributed by Sinotruk Ji'nan Truck Co., Ltd. Except for the dividends paid to non-controlling interests (Note 33(c)), acquisition of ownership interest from non-controlling interests and capital injection to non-wholly owned subsidiary, there was no other transactions with non-controlling interests during the year.

Summarised financial information on subsidiaries with material non-controlling interests

The following tables illustrate the financial information of Sinotruk Ji'nan Truck Co., Ltd., that has non-controlling interests that are material to the Group, The financial information extracted from the financial statements has been adjusted for differences in accounting policies between the Group and the subsidiary.

Summarised statement of financial position

	2018	2017
Current		
Assets	**17,078,786**	20,813,351
Liabilities	**(12,777,007)**	(16,905,757)
Total current net assets	**4,301,779**	3,907,594
Non-current		
Assets	**1,329,759**	1,367,920
Liabilities	**(131,437)**	(134,878)
Total non-current net assets	**1,198,322**	1,233,042
Net assets	**5,500,101**	5,140,636

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10. SUBSIDIARIES (CONTINUED)

(a) Material non-controlling interests (Continued)

Summarised statement of profit or loss and comprehensive income

	2018	2017
Revenue	**37,942,140**	34,975,670
Profit before income tax	**991,619**	869,197
Income tax expense	**(155,350)**	(198,325)
	836,269	670,872
Other comprehensive loss	**(3,686)**	(6,041)
Post-tax profit and total comprehensive Income	**832,583**	664,831
Total comprehensive income allocated to non-controlling interests	**301,562**	240,802
Dividends paid to non-controlling interests	**165,285**	55,905

Summarised statement of cash flows

	2018	2017
Cash flows from operating activities		
Cash generated from operations	**445,691**	1,466,378
Interest paid	**(172,475)**	(204,196)
Income tax paid	**(294,149)**	(195,277)
Net cash (used in)/generated from operating activities	**(20,933)**	1,066,905
Net cash generated from investing activities	**239,290**	4,828
Net cash (used in)/generated from financing activities	**(1,708,727)**	615,929
Net (decrease)/increase in cash and cash equivalents	**(1,490,370)**	1,687,662
Cash and cash equivalents at beginning of the year	**2,162,000**	474,338
Cash and cash equivalents at end of the year	**671,630**	2,162,000

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11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated statement of financial position are as follows:

	2018	2017
Associates	**381,307**	333,675
Joint venture	**152,841**	144,152
	534,148	477,827

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2018	2017
Share of profits less losses:		
Associates	**60,203**	33,508
Joint venture	**10,148**	11,936
	70,351	45,444
Dilution gain in an associate	**6,283**	—

(a) Investments in associates

	2018	2017
At 1 January	**333,675**	324,915
Additions	**5,000**	—
Share of profits less losses	**60,203**	33,508
Share of other comprehensive (losses)/income of investments accounted for using the equity method	**(1,131)**	16
Dilution gain	**6,283**	—
Dividend received	**(22,723)**	(24,764)
At 31 December	**381,307**	333,675

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11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Investments in associates (Continued)

The particulars of the associates of the Group at 31 December 2018 and 2017, except for Prinx Cayman at 31 December 2018, all of which are unlisted, are set out as follows:

Company name	Place of business/ Country/ place of incorporation	% of ownership interest as at 31 December		Principal activities
		2018	2017	
Prinx Cayman	PRC/ Cayman Islands	**9.98%**	12.68%	Investment holding
Sinotruk Panzhihua Mining Truck Co., Ltd. ("Panzhihua Mining Truck")	PRC	**30%**	30%	Sales of heavy duty truck
Changjiu Sinotruk	PRC	**25%**	N/A	Provision of premier delivery service

In August 2018, the Group entered into an agreement to set up an associate - Shandong Changjiu Sinotruk Logistics Co., Ltd. ("Changjiu Sinotruk") for the primary purpose to provide the premier delivery service. The Group injected RMB5,000,000 in cash in September 2018 for 25% equity of Changjiu Sinotruk.

In October 2018, Prinx (Cayman) Holdings Limited ("Prinx Cayman") completed its initial public offering ("IPO") on the Main Board of The Stock Exchange of Hong Kong Limited. Prinx Cayman allotted and issued 135,000,000 new shares upon the IPO at an offer price of HKD5.89 per share with net cash proceed of approximately HKD738,000,000 (after deducting listing expenses). Accordingly, the Group's equity interest in Prinx Cayman was diluted to 9.98%.

The assets and liabilities of the Group's associates are as follows :

	2018	2017
Assets	**5,356,462**	4,028,980
Liabilities	**2,249,639**	2,388,289
Revenue	**5,234,853**	4,840,396
Profit	**480,024**	173,184

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11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in a joint venture

	2018	2017
At 1 January	**144,152**	141,512
Share of profits less losses	**10,148**	11,936
Share of other comprehensive income of investments accounted for using the equity method	**7,282**	—
Dividend received	**(8,741)**	(9,296)
At 31 December	**152,841**	144,152

The particulars of the joint venture of the Group at 31 December 2018 and 2017, which is unlisted, are set out as follows:

Company name	Place of business/ Country/ place of incorportaion	% of ownership interest as at 31 December		Principal activities
		2018	2017	
Sinotruk (Hong Kong) Hongye Limited ("Hongye")	Hong Kong	**65%**	65%	Retail and wholesale of trucks and spare parts; agency of sales of motor vehicle and spare parts; after-sales service of trucks and other motor vehicles

Sinotruk (Hong Kong) Capital Holding Limited ("Capital Holding Company") and China-Africa Manufacturing and Investment Limited, a third party, set up a joint venture, Hongye. Capital Holding Company holds 65% equity interests in Hongye. Although Capital Holding Company has 65% of the voting rights of Hongye, Capital Holding Company has contractually agreed sharing of control over Hongye with China-Africa Manufacturing and Investment Limited under which the relevant activities require unanimous consent from both parties. In addition, both Capital Holding Company and China-Africa Manufacturing and Investment Limited have rights to the net assets of Hongye. Therefore, Hongye is classified as a joint venture and is accounted for by using equity method.

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11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investment in a joint venture (Continued)

The Group's share of the results of the joint venture, and its assets and liabilities, are as follows:

	2018	2017
Assets	**670,581**	583,353
Liabilities	**435,441**	361,581
Revenue	**1,333,936**	1,250,711
Profit	**15,612**	18,363
% interest held	**65%**	65%

12. TAXATION

(a) Income tax expense

The estimated weighted average annual income tax rate expected for the full financial year is 17% (the estimated tax rate for the year ended 31 December 2017 was 18%).

The Company, Sinotruk (Hong Kong) International Investment Limited and Capital Holding Company are subject to Hong Kong profits tax at the rate of 16.5% (2017: 16.5%) on their estimated assessable profit for the year. The Company is determined as a Chinese-resident enterprise and, accordingly, is subject to corporate income tax of the People's Republic of China ("PRC"), which has been calculated based on the corporate income tax rate of 25% (2017: 25%).

Taxation on overseas profits has been calculated on the estimated assessable profit during the year ended 31 December 2018 at the rates of taxation prevailing in the countries in which the Group operates.

Sinotruk Hubei Huawei Special Vehicles Co., Ltd. has been recognised as the High New Tech Enterprises in 2016. Sinotruk Ji'nan Power Co., Ltd. and Sinotruk Hangzhou Engines Co., Ltd. have been recognised as the High New Tech Enterprises in 2017. Sinotruk Ji'nan Fuqiang Power Co., Ltd. had been recognised as the High New Tech Enterprises in 2018. According to the tax incentives of the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") for High New Tech Enterprises, these companies are subject to a reduced corporate income tax rate of 15% (2017: 15%).

Sinotruk Chongqing Fuel System Co., Ltd., Sinotruk Liuzhou Yunli Special Vehicles Co., Ltd., Sinotruk Chengdu Wangpai Commercial Vehicles Co., Ltd. and Sinotruk Mianyang Special Vehicles Co., Ltd. are subject to a corporate income tax rate of 15% according to the Western Development tax incentives of the CIT Law (2017: 15%).

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12. TAXATION (CONTINUED)

(a) Income tax expense (Continued)

SINOTRUK RUS Limited Liability Company is subject to a corporate income tax rate of 20% according to Tax Code of the Russian Federation (2017: 20%).

Sinotruk South Africa (Pty) Ltd. is subject to a corporate income tax rate of 28% according to South Africa Tax Law (2017: 28%).

Sinotruk Kazakhstan Limited Liability Partnership is subject to a corporate income tax rate of 20% according to Kazakhstan Tax Law (2017: 20%).

The remaining subsidiaries are subject to the PRC corporate income tax, which have been calculated based on the corporate income tax rate of 25% (2017: 25%).

The amount of income tax expense charged to profit or loss represents:

	2018	2017
Current tax:		
– Hong Kong profits tax	1,686	8,756
– PRC corporate income tax	929,224	1,015,958
– Income tax in other jurisdictions	1,754	326
Total current tax	932,664	1,025,040
Deferred tax (Note 29 (b))	60,394	(305,502)
Income tax expense	993,058	719,538

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

	2018	2017
Profit before income tax	5,718,703	4,055,433
Tax calculated at tax rates applicable to profits of the respective entities	1,409,883	963,443
Tax effects of:		
Preferential tax of certain subsidiaries	(218,123)	(164,250)
Additional deduction for research and development expenditures	(73,344)	(51,842)
Expenses not deductible for tax purposes	6,555	43,231
Tax losses for which no deferred tax assets were recognised	20,777	95,404
Utilisation of previously unrecognised deferred tax assets	(86,396)	(106,912)
Re-measurement of deferred tax resulted from recognition changes of tax losses of certain subsidiaries	(66,294)	(59,536)
Income tax expense	993,058	719,538

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12. TAXATION (CONTINUED)

(a) Income tax expense (Continued)

As at 31 December 2018, the Group has unrecognised tax losses of approximately RMB452,203,000 (2017: RMB944,401,000) which can be carried forward against future taxable income and will expire within 5 years. Tax losses amounting to approximately RMB63,158,000, RMB89,952,000, RMB101,920,000, RMB93,754,000, RMB103,419,000 will expire in 2019, 2020, 2021, 2022 and 2023, respectively.

(b) Value-added tax ("VAT") and related taxes

Certain of the Group's entities are subject to output VAT. Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (Cai Shui [2018] No. 32) and related regulations issued by the Ministry of Finance and the State Administration of Taxation, the Group's revenue from the sales of products is subject to VAT at rate of 16% from 1 May 2018 while the VAT rate was 17% before then, and 6%, 11% or 16% of the service fee income. An input credit is available whereby input VAT previously paid on purchases of raw materials, semi-finished products or other can be used to offset the output VAT to determine the net VAT payable. The subsidiaries are also subject to city construction tax and educational surcharge based on 5% or 7% and 5% of net VAT payable, respectively.

13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company.

	2018	2017
Profit attributable to owners of the Company	**4,344,545**	3,023,023
Weighted average number of ordinary shares in issue (thousands)	**2,760,993**	2,760,993
Basic earnings per share (RMB per share)	**1.57**	1.09

Diluted earnings per share equals to basic earnings per share for the years ended 31 December 2018 and 2017 as there are no dilutive potential shares existed during the years.

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14. LAND USE RIGHTS

Land in the Mainland China is state-owned or collectively-owned and no individual land ownership right exists. Land use rights in the Mainland China represent the Group's interests in land which are held on leases between 35 to 50 years.

Land use rights in Hong Kong represent the Group's interests in three parcels of land which are held on leases of 32 to 867 years.

The movements for land use rights are as follows:

	2018	2017
Opening net book amount	**1,650,123**	1,651,677
Additions	**–**	47,274
Transfer to assets classified held for sale	**–**	(7,554)
Transfer to investment properties (Note 16)	**–**	(2,667)
Amortisation charge (Note 6)	**(38,492)**	(38,607)
Closing net book amount	**1,611,631**	1,650,123

Amortisation of land use rights has been charged to administrative expenses in the statement of profit or loss.

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15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Furniture, fittings and equipment	Vehicles	Construction in progress	Total
At 1 January 2017						
Cost	6,355,127	11,011,152	405,633	278,022	786,567	18,836,501
Accumulated depreciation	(1,425,146)	(6,827,105)	(260,341)	(158,511)	—	(8,671,103)
Net book amount	4,929,981	4,184,047	145,292	119,511	786,567	10,165,398
Year ended 31 December 2017						
Opening net book amount	4,929,981	4,184,047	145,292	119,511	786,567	10,165,398
Additions	1,351	21,849	10,697	40,069	1,111,306	1,185,272
Transfers	608,303	272,323	3,540	1,659	(885,825)	—
Transfer to intangible assets (Note 17)	—	—	—	—	(52,420)	(52,420)
Transfer to Investment Property (Note 16)	(32,088)	—	—	—	(201)	(32,289)
Transfer to assets classified held for sale	(114,196)	—	—	—	—	(114,196)
Disposals (Note 34(b))	(27,095)	(3,844)	(372)	(7,873)	—	(39,184)
Disposal of a subsidiary	(4,913)	(15,284)	(888)	(1,102)	(140)	(22,327)
Depreciation charge (Note 6)	(216,380)	(890,083)	(23,825)	(22,200)	—	(1,152,488)
Closing net book amount	5,144,963	3,569,008	134,444	130,064	959,287	9,937,766
As at 31 December 2017						
Cost	6,702,107	11,184,010	405,663	278,716	959,287	19,529,783
Accumulated depreciation	(1,557,144)	(7,615,002)	(271,219)	(148,652)	—	(9,592,017)
Net book amount	5,144,963	3,569,008	134,444	130,064	959,287	9,937,766
Year ended 31 December 2018						
Opening net book amount	**5,144,963**	**3,569,008**	**134,444**	**130,064**	**959,287**	**9,937,766**
Additions	**20,314**	**31,841**	**29,655**	**14,127**	**1,447,267**	**1,543,204**
Transfers	**83,854**	**692,187**	**28,631**	**13,746**	**(818,418)**	**—**
Transfer to intangible assets (Note 17)	**—**	**—**	**—**	**—**	**(19,752)**	**(19,752)**
Disposals (Note 34(b))	**(6,383)**	**(9,158)**	**(405)**	**(340)**	**—**	**(16,286)**
Depreciation charge (Note 6)	**(219,580)**	**(813,889)**	**(22,323)**	**(22,662)**	**—**	**(1,078,454)**
Closing net book amount	**5,023,168**	**3,469,989**	**170,002**	**134,935**	**1,568,384**	**10,366,478**
As at 31 December 2018						
Cost	**6,554,092**	**11,775,857**	**455,985**	**292,329**	**1,568,384**	**20,646,647**
Accumulated depreciation	**(1,530,924)**	**(8,305,868)**	**(285,983)**	**(157,394)**	**—**	**(10,280,169)**
Net book amount	**5,023,168**	**3,469,989**	**170,002**	**134,935**	**1,568,384**	**10,366,478**

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15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Depreciation expense of property, plant and equipment has been charged to profit or loss as follows:

	2018	2017
Cost of sales	**868,902**	949,443
Distribution costs	**5,012**	4,790
Administrative expenses	**204,540**	198,255
	1,078,454	1,152,488

(b) The borrowing costs capitalised into the costs of property, plant and equipment during the year are as follows:

	2018	2017
Borrowing costs capitalized (Note 9)	**1,245**	4,479
Weighted average capitalisation rate	**3.95%**	4.04%

(c) As at 31 December 2018, the Group was in the process of applying the certificates of ownership for the buildings, with net book amount of approximately RMB138,119,840 (2017: approximately RMB201,780,000).

16. INVESTMENT PROPERTIES

	2018	2017
As at 1 January	**709,576**	642,561
Transfer from property, plant and equipment (Note 15)	**–**	32,289
Transfer from land use rights (Note 14)	**–**	2,667
Revaluation gains arising from transfer of property, plant and equipment and land use rights to investment properties	**–**	13,087
Revaluation gains recognised in other gains – net (Note 7)	**3,221**	18,972
As at 31 December	**712,797**	709,576

(a) Investment properties are located in the Hong Kong, Shandong province and Guangxi province, PRC and revalued as at 31 December 2018 on an open market value. Investment properties in Hong Kong are held on leases over 50 years. Investment properties in Mainland China are held on leases between 35 to 50 years.

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16. INVESTMENT PROPERTIES (CONTINUED)

(b) The following amounts have been recognised in profit or loss:

	2018	2017
Rental income	**29,679**	26,103

(c) Fair value hierarchy

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers among level 1, 2 and 3 during the year.

The following table analyses the investment properties carried at fair value, by fair value hierarchy levels.

	Fair value measurements at 31 December 2018 using		
Description	Quoted prices in active markts for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements:			
– Warehouses	**–**	**–**	**59,447**
– Factories	**–**	**–**	**287,341**
– Office units	**–**	**287,858**	**78,151**
	–	**287,858**	**424,939**

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16. INVESTMENT PROPERTIES (CONTINUED)

(c) Fair value hierarchy (Continued)

	Fair value measurements at 31 December 2017 using		
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements:			
– Warehouses	—	—	60,487
– Factories	—	—	309,526
– Office units	—	253,862	85,701
	—	253,862	455,714

(d) Valuation process of the Group

An independent valuation of the Group's investment properties was performed by the surveyors, PRUDENTIAL Property Surveyors (Hong Kong) Limited and Shandong Tianjian Xingye Appraisal Corporation, to determine the fair value of the investment properties as at 31 December 2018 (2017: PRUDENTIAL Property Surveyors (Hong Kong) Limited, Jinan Zhong Da Appraisal Corporation and Guangxi Jia Yi Appraisal Corporation). The revaluation gains or losses are included in 'Other gains – net' in profit or loss.

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16. INVESTMENT PROPERTIES (CONTINUED)

(e) Valuation techniques

Level 2 fair values of the investment properties have been generally derived using sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is selling price per square foot or per square meter.

Level 3 fair values of the investment properties are based on income capitalization approach (term and reversionary method) which largely used unobservable inputs (rental value and capitalization rate) and taking into account the significant adjustment on term yield to account for the risk upon reversionary and the estimation in vacancy rate after expiry of current lease.

Information about fair value measurements using significant unobservable inputs (Level 3):

Description	Fair value at 31 December 2018	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Investment Properties	390,550	Income capitalisation approach	Rental value	RMB0.45-2.5 per day per square meter	The higher the rental value, the higher the fair value
			Capitalisation rate	6.5%-8%	The higher the capitalisation rate, the lower the fair value
	34,389	Direct comparison method	Unit price	RMB650.58-656.88 per day per square meter	The higher the unit price, the higher the fair value

(All amounts in RMB thousands unless otherwise stated)

17. INTANGIBLE ASSETS

Intangible assets mainly represent the costs of acquiring proprietary technology and computer software. The movement is as follows:

	Proprietary technology	Computer software	Total
At 1 January 2017			
Cost	1,305,863	74,988	1,380,851
Accumulated amortisation	(987,987)	(42,648)	(1,030,635)
Net book amount	317,876	32,340	350,216
Year ended 31 December 2017			
Opening net book amount	317,876	32,340	350,216
Additions	3,761	8,501	12,262
Transfer from property, plant and equipment (Note 15)	51,887	533	52,420
Amortisation charge (Note 6)	(49,452)	(7,653)	(57,105)
Disposal of a subsidiary	(8)	(958)	(966)
Closing net book amount	324,064	32,763	356,827
At 31 December 2017			
Cost	1,361,503	83,064	1,444,567
Accumulated amortisation	(1,037,439)	(50,301)	(1,087,740)
Net book amount	324,064	32,763	356,827
Year ended 31 December 2018			
Opening net book amount	**324,064**	**32,763**	**356,827**
Additions	**–**	**11,049**	**11,049**
Disposal	**–**	**(29)**	**(29)**
Transfer from property, plant and equipment (Note15)	**19,184**	**568**	**19,752**
Amortisation charge (Note 6)	**(54,931)**	**(8,617)**	**(63,548)**
Closing net book amount	**288,317**	**35,734**	**324,051**
At 31 December 2018			
Cost	**1,380,687**	**94,599**	**1,475,286**
Accumulated amortisation	**(1,092,370)**	**(58,865)**	**(1,151,235)**
Net book amount	**288,317**	**35,734**	**324,051**

(a) Amortisation of the Group's intangible assets has been charged to administrative expenses in profit or loss.

(b) Research and development expenditures that do not meet criteria for capitalisation are recognised as an expense as incurred. The total amount of expenses charged into profit or loss is approximately RMB1,396,005,000 (2017: RMB1,244,553,000).

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18. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	Note	2018	2017
Financial assets*			
Trade and other receivables excluding prepayments	22	**13,928,196**	15,642,052
Financial assets at amortised cost	20	**33,990**	—
Cash and bank balance	24	**14,968,357**	12,417,389
FVOCI	19(a)	**2,560,983**	—
FVPL	21	**2,251,868**	781,981
Available-for-sale financial assets	19(b)	**—**	2,545,606
Amounts due from related parties excluding prepayments	38(b)	**520,232**	352,428
Total		**34,263,626**	31,739,456

* See Note 2.1.1 for details about the impact from changes in accounting policies.

	Note	2018	2017
Financial liabilities			
Trade and bills payable, and other payables	27	**25,068,638**	25,095,195
Borrowings	28	**3,000,000**	3,990,000
Amounts due to related parties excluding contract liabilities/advances from customers	38(b)	**459,973**	1,402,371
Total		**28,528,611**	30,487,566

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3.1. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(a) Financial assets at fair value through other comprehensive income

The classification of financial assets at fair value through other comprehensive income (FVOCI) comprise:

- Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.
- Debt investments where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

	2018	2017
Non-current		
Equity investments (i)	37,925	–
Current		
Debt investments (ii)		
– bank acceptance notes	2,505,621	–
– commercial acceptance notes	17,437	–
	2,523,058	–

(i) These equity investments were classified as available-for-sale in 2017, see (b) below. All of the equity investments were also held in the previous period.

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.

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19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(a) Financial assets at fair value through other comprehensive income (Continued)

(ii) The Group receives acceptance notes from its customers to settle the purchase prices consideration and intends to use these acceptance notes either to pay off its trade and other payables or to hold until maturity. These acceptance notes are classified as financial assets at fair value through other comprehensive income under HKFRS 9 during the Period while they were classified as note receivables which formed part of trade receivables in 2017. The aging analysis of these acceptance notes based on transaction dates at the respective dates of statement of financial position is as follows:

	2018	2017
Less than 3 months	1,460,368	—
3 months to 6 months	855,267	—
6 months to 12 months	207,423	—
	2,523,058	—

On disposal of these debt investments, any related balance within the FVOCI reserve is reclassified to profit or loss.

(iii) All equity investments and debt investments as at 31 December 2018 are dominated in RMB.

(b) Financial assets previously classified as available-for-sale financial assets (2017)

In the prior financial year, the Group had designated equity investments at an amount of RMB37,925,000 as available-for-sale where management intended to hold them for long-term strategic investment purpose. Note 2.1.1 explains the change of accounting policy and the reclassification of certain equity investments from available-for-sale to at fair value through profit or loss. Note 2.2 (l) sets out the remaining accounting policies.

	2018	2017
At 1 January	–	2,029,225
Additions	–	8,467,785
Disposals	–	(7,957,485)
Fair value change recognised in other comprehensive income	–	6,081
At 31 December	–	2,545,606
Less: non-current portion	–	(205,533)
Current portion	–	2,340,073

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19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Financial assets previously classified as available-for-sale financial assets (2017) (Continued)

Available-for-sale financial assets include the following:

	2018	2017
Wealth management products with principal and interests non-guaranteed and due within one year (i)	–	2,340,073
Wealth management products with principal and interests non-guaranteed and due more than one year (i)	–	167,608
Unlisted securities		
– equity investments	–	37,925
	–	2,545,606

(i) At 31 December 2017, the investment principal of these wealth management products is RMB2,508 million. It is valued by using a discounted cash flow approach, a valuation technique within level 3 of the fair value hierarchy (Note 3.3), and main input used by the Group is estimated yield rates written in contracts with the counterparties.

20. FINANCIAL ASSETS AT AMORTISED COST

Financial assets at amortised cost include the following debt investments:

	2018	2017
Bills discounted (a)	**33,990**	–

See Note 2.1.1 for the impact of the change in accounting policy following the adoption of HKFRS 9 on the reclassification of notes receivables from trade receivables to financial assets at amortised cost and Note 2.2(l) for the remaining relevant accounting policies.

(a) The aging analysis of receivables from bills discounting services based on transaction dates at the respective dates of statement of financial position is as follows:

	2018	2017
Less than 3 months	**4,480**	–
3 months to 6 months	**24,351**	–
6 months to 12 months	**5,159**	–
	33,990	–

(b) All bills discounted as at 31 December 2018 are dominated in RMB.

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21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification of financial assets at fair value through profit or loss

Financial assets mandatorily measured at FVPL include the following:

	2018	2017
Non-current		
Wealth management product		
– with principal and interests non-guaranteed	173,688	—
Current		
Listed securities – held for trading		
– Equity securities	103,544	128,306
Wealth management product		
– with principal preservation and floating return	1,458,268	653,675
– with principal and interests non-guaranteed	516,368	—
	2,078,180	781,981

See Note 2.1.1 for explanations regarding the change in accounting policy and the reclassification of certain investments from AFS to financial assets at FVPL following the adoption of HKFRS 9, and Note 2.2(l) for the remaining relevant accounting policies.

(i) FVPL are denominated in the following currencies:

	2018	2017
RMB	2,148,324	655,362
HKD	103,544	126,619
	2,251,868	781,981

(b) Amounts recognised in profit or loss

During the year, the following (losses)/gains were recognised in 'other gains – net':

	2018	2017
Fair value (losses)/gains on equity securities (i)	(12,850)	22,138
Fair value losses on wealth management product	(13,032)	—
	(25,882)	22,138

(i) The fair values of all equity securities are based on their current bid prices in an active market.

(All amounts in RMB thousands unless otherwise stated)

22. RECEIVABLES AND OTHER ASSETS

	2018	2017
Non-current		
Financing receivables	2,210,192	1,976,359
Less: Provision for impairment of financing receivables	(44,876)	(29,647)
Financing receivables – net (a)	2,165,316	1,946,712
Prepayments for long term assets	29,368	—
Receivables and other assets – net	2,194,684	1,946,712
Current		
Accounts receivable	6,107,507	5,588,123
Less: Provision for impairment of accounts receivable	(1,065,423)	(803,354)
Accounts receivable – net	5,042,084	4,784,769
Notes receivable	—	2,685,325
Trade receivables – net	5,042,084	7,470,094
Financing receivables	6,510,697	5,228,935
Less: Provision for impairment of financing receivables	(132,741)	(90,649)
Financing receivables – net (a)	6,377,956	5,138,286
Other receivables and other assets	342,036	1,099,044
Less: Provision for impairment of other receivables and other assets	(55,078)	(63,588)
Other receivables and other assets – net	286,958	1,035,456
Interest receivables	55,882	51,504
Receivables and other assets before prepaid items	11,762,880	13,695,340
Prepayments	224,689	442,393
Prepaid taxes other than income tax	598,739	1,009,536
Prepaid income taxes	3,006	3,428
Receivables and other assets – net	12,589,314	15,150,697

(a) As at 31 December 2018 and 2017, the carrying amounts of the Group's receivables and other assets before prepaid items approximated their fair values.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by RMB26,582,000 for trade receivables. Note 3.1(c) provides for details about the calculation of the allowance.

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1(c).

On the adoption of the HKFRS 9, notes receivable was reclassified as FVOCI (Note 19).

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22. RECEIVABLES AND OTHER ASSETS (CONTINUED)

(b) The movements in the provision for impairment of receivables and other assets are as follows:

	2018	2017
At 31 December 2017 – calculated under HKAS 39	**987,238**	875,794
Amounts restated through provision for impairment of receivables	**26,582**	—
At 1 January 2018 – calculated under HKFRS 9	**1,013,820**	875,794
Provision for impairment of receivables	**303,510**	234,392
Receivables written off during the year as uncollectible	**(19,212)**	(6,854)
Disposal of a subsidiary	**—**	(116,094)
Closing amount	**1,298,118**	987,238

The Group's provision for impairment of receivables disclosed in Note 3.1 (2017: RMB234,392,000) is included in administrative expenses in profit or loss.

(c) The ageing analysis of trade receivables – net based on invoice date at respective dates of statement of financial position are as follows:

	2018	2017
Less than 3 months	**3,545,796**	5,069,670
3 months to 6 months	**651,162**	1,554,192
6 months to 12 months	**551,639**	667,152
1 year to 2 years	**280,327**	117,657
2 years to 3 years	**2,171**	51,684
Over 3 years	**10,989**	9,739
	5,042,084	7,470,094

The sales policy of the Group generally requires its customers to pay a certain amount of deposits when orders of trucks are made and settle purchase price either in cash, on credit or by acceptance notes. A credit period from 3 to 12 months is granted to selected customers based on credit assessment.

As at 31 December 2018, accounts receivable of the Group of approximately RMB668,673,000 (2017: RMB602,731,000) were secured by certain letters of credit issued by overseas third parties. As at 31 December 2018, RMB2,427,334,000 (2017: RMB1,237,053,000) were guaranteed by China Export and Credit Insurance Corporation.

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22. RECEIVABLES AND OTHER ASSETS (CONTINUED)

(d) The ageing analysis of financing receivables – net at respective dates of statement of financial position are as follows:

	2018	2017
Less than 3 months	1,914,717	2,321,760
3 months to 6 months	1,330,683	1,818,342
6 months to 12 months	3,407,030	2,249,046
1 year to 2 years	1,837,589	695,361
2 years to 3 years	53,253	—
Over 3 years	—	489
	8,543,272	7,084,998

Financing receivables represents loans granted by Sinotruk Finance Co., Ltd. and ShanDong HOWO Auto Finance Co., Ltd. which are involved in the provision of financing services, to individuals and entities when they purchased commercial vehicles of the Group from dealers at an interest rate of 1.10% to 18.00% per annum, and to suppliers of the Group at an interest rate of 2.70% to 7.80% per annum. These receivables to those who purchased commercial vehicles of the Group from dealers were secured by the vehicles and most of these receivables were guarantees provided by these dealers and their relevant parties.

(e) The credit quality of the accounts receivable, financing receivables, other receivables and interest receivables are as follows:

(i) Accounts receivable, financing receivables, other receivables and interest receivables that were neither past due nor impaired

The credit quality of above-mentioned financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counterparty default rates. The Group categorises its accounts receivable, financing receivables, other receivables and interest receivables into the following:

a) Group 1 – interest receivables (2017: bank acceptance notes for which the repayment are guaranteed by large banks and interest receivables);

b) Group 2 – Commercial acceptance notes for which the repayment are guaranteed by corresponding issuer; and

c) Group 3 – Accounts receivables, financing receivables and other receivables due from customers or other counter parties with no defaults in the past.

	2018	2017
Group 1	55,882	2,733,309
Group 2	—	3,520
Group 3	9,072,396	10,216,556
	9,128,278	12,953,385

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22. RECEIVABLES AND OTHER ASSETS (CONTINUED)

(e) The credit quality of the accounts receivable, financing receivables, other receivables and interest receivables is as follows: (Continued)

(ii) As at 31 December 2018, no accounts receivable, financing receivables and other receivables (31 December 2017: RMB157,604,000) were past due but not impaired.

The ageing analysis of these receivables based on invoice date is as follows:

	2018	2017
within 1 year	–	121,866
1 year to 2 years	–	35,738
	–	157,604

The ageing analysis of these receivables based on payment due date is as follows:

	2018	2017
within 1 year	–	148,750
1 year to 2 years	–	8,854
	–	157,604

(iii) Impaired receivables

As at 31 December 2018, receivables that were impaired are analysed below:

	2018	2017
Receivables	**6,098,036**	3,518,301
Less: Provision for impairment	**(1,298,118)**	(987,238)
	4,799,918	2,531,063

The impaired receivables mainly relate to individual customers which are with doubtful repayment ability. It was assessed that a portion of the receivables is expected to be recovered.

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22. RECEIVABLES AND OTHER ASSETS (CONTINUED)

(f) The carrying amounts of the Group's receivables and other assets before prepaid items are denominated in the following currencies:

	2018	2017
RMB	12,129,927	14,014,577
USD	1,730,231	1,508,612
EURO	58,422	118,314
ZAR (South African Rand)	9,132	—
HKD	484	542
AUD (Australian Dollar)	—	4
TWD (Taiwan Dollar)	—	3
	13,928,196	15,642,052

(g) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

23. INVENTORIES

	2018	2017
Raw materials	1,664,850	1,499,455
Work in progress	1,539,109	2,076,683
Finished goods – engines, parts and components	197,913	310,888
Finished goods – trucks	8,447,326	9,773,917
	11,849,198	13,660,943
Less: write-down of inventories to net realisable value	(254,706)	(414,916)
	11,594,492	13,246,027

The costs of inventories that have been charged to profit or loss are analysed as follows:

	2018	2017
Materials cost (Note 6)	45,529,719	40,307,297
Write-down of inventories to net realizable value (Note 6)	179,649	222,646
	45,709,368	40,529,943
Representing:		
Cost of sales	45,200,784	40,126,347
Administrative expenses	508,584	403,596
	45,709,368	40,529,943

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24. CASH AND BANK BALANCES

	2018	2017
Restricted cash (a)	**2,352,363**	2,577,240
Cash and cash equivalents (b)	**12,615,994**	9,840,149
	14,968,357	12,417,389

(a) Restricted cash

The breakdown of restricted cash by nature as at 31 December 2018 and 2017 is as follows:

	2018	2017
Deposits for issuing bank acceptance notes	**422,628**	423,129
Deposits for issuing letters of credit	**51,461**	44,263
Mandatory reserve deposits (i)	**1,864,827**	2,101,332
Other restricted cash	**13,447**	8,516
	2,352,363	2,577,240

(i) The Group is required to place mandatory deposits with the People's Bank of China ("PBOC") for deposits taking.

(b) Cash and cash equivalents

	2018	2017
Cash on hand	**177**	194
Time deposits with initial terms of over three months (i)	**—**	5,000
Current bank deposits (ii)	**12,615,817**	9,834,955
Cash and cash equivalents	**12,615,994**	9,840,149

(i) There were no time deposits with initial terms of over three months in 2018. The weighted average effective interest rate on these time deposits with initial terms of over three months was 1.65% per annum in 2017. As these time deposits can be drawn on demand and available within short time frame without penalty, the Directors are of the view that such time deposits are qualified as demand deposits and classified as cash and cash equivalents.

(ii) The weighted average effective interest rate on current bank deposits was 0.84% per annum (2017: 0.83%).

(iii) Most of the Group's cash and cash equivalents denominated in RMB are deposited with banks in Mainland China. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

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24. CASH AND BANK BALANCES (CONTINUED)

(b) Cash and cash equivalents (Continued)

(iv) Credit quality of cash at bank

The Group categorises its cash at bank into the following:

i) Group 1 – Major international banks

ii) Group 2 – Large China reputable banks

The management considered the credit risks in respect of bank deposits with financial institutions are relatively minimum as each counterparty either bears a high credit rating or is large state-owned or listed PRC bank with good reputation.

	2018	2017
Group 1	**144,531**	66,187
Group 2	**12,471,286**	9,773,768
	12,615,817	9,839,955

(c) Cash and bank balances are denominated in:

	2018	2017
RMB	**13,735,806**	9,567,943
USD	**1,132,318**	2,799,985
HKD	**33,246**	35,504
EURO	**46,685**	11,409
GBP (Great Britain Pound)	**2,661**	—
Others	**17,641**	2,548
	14,968,357	12,417,389

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25. ASSETS CLASSIFIED AS HELD FOR SALE

	2018	2017
Assets classified as held for sale		
Land use rights and property, plant and equipment	–	121,595

In December 2017, the Group entered an agreement with Land Reservation Center of Zhangqiu District, Ji'nan City to sell a parcel of land use rights and property, plant and equipment. The sale has been completed at 11 January 2018.

26. EQUITY

(a) Share Capital

Ordinary shares, issued and fully paid:

	Number of shares	Share capital
Balance at 1 January 2018 and at 31 December 2018	**2,760,993,339**	**16,717,024**
Balance at 1 January 2017 and at 31 December 2017	2,760,993,339	16,717,024

(b) Notes to the Group's reserves

(i) The Group's capital reserve is the reserve arising from asset donations and transactions with CNHTC as a result of the Reorganisation and transactions with non-controlling interests.

(ii) The Group's statutory reserves is the aggregate of statutory reserves of all PRC subsidiaries. In accordance with PRC regulations and the articles of the association of the subsidiaries incorporated in PRC ("PRC subsidiaries"), before distributing the profit of each year, the PRC subsidiaries are required to set aside 10% of their statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory reserve. When the balance of such reserve reached 50% of the capital, any further appropriation is optional. The statutory reserve can be utilised to offset prior year's losses or to issue bonus shares. However, such statutory reserve must be maintained at a minimum of 25% of the entity's capital after such issuance.

(iii) The merger reserve of the Group represents the difference between the nominal value of the shares or the capital of the subsidiaries that had been acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the Reorganisation or cash consideration paid for purchase of subsidiary as a business combination under common control subsequent to the Reorganisation.

(All amounts in RMB thousands unless otherwise stated)

26. EQUITY (CONTINUED)

(b) Notes to the Group's reserves (Continued)

(iv) According to the regulations of the Notice of the Ministry of Finance on Issuing the Administrative Measures for the Provision of Reserves of Financial Enterprises (Cai Jin [2012] No. 20) issued on 30 March 2012, financial enterprises shall, based on their actual conditions, carry out quantitative analysis on the risks to which the risk assets are exposed via the internal model approach or standard approach to determine the estimated value of potential risk. A general provision is made for the part that the estimated value of potential risk excesses the impairment of assets. In principle, balance of general provision shall be no lower than 1.5% of the ending balance of risk assets. The proportion (1.5%) that the balance of general provision accounts for the ending balance of risk assets could be reached in several years, but no more than 5 years in principle, if it is not available for a financial enterprise by one-time.

According to the regulations of the Administrative Measures for the Provision of Reserves of Financial Enterprises (Cai Jin [2012] No. 20) issued by the Ministry of Finance, Sinotruk Finance Co., Ltd. and ShanDong HOWO Auto Finance Co., Ltd., both are subsidiaries of the Company, appropriates the general risk reserve and have reached 1.57% and 1.5% of ending balances of their risk assets of the current year respectively.

27. TRADE PAYABLES, OTHER PAYABLES AND OTHER CURRENT LIABILITIES

	2018	2017
Trade and bills payables	**21,718,641**	22,413,165
Advances from customers	**—**	2,744,023
Contract liabilities	**2,341,803**	—
Accrued expenses	**1,128,632**	848,793
Staff welfare and salaries payable	**601,566**	563,861
Taxes liabilities other than income tax	**293,190**	142,856
Other payables	**2,221,365**	1,833,237
	28,305,197	28,545,935

As at 31 December 2018 and 2017, the ageing analysis of the trade and bills payables based on invoice date was as follows:

	2018	2017
Less than 3 months	**19,971,081**	20,038,522
3 months to 6 months	**1,583,580**	2,125,755
6 months to 12 months	**68,962**	162,225
1 year to 2 years	**79,247**	66,581
2 years to 3 years	**6,322**	10,624
Over 3 years	**9,449**	9,458
	21,718,641	22,413,165

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27. TRADE PAYABLES, OTHER PAYABLES AND OTHER CURRENT LIABILITIES (CONTINUED)

The carrying amounts of the Group's trade and bills payables and other payables are denominated in the following currencies:

	2018	2017
RMB	**23,912,893**	24,214,156
USD	**24,002**	28,958
HKD	**2,960**	3,288
ZAR (South African Rand)	**151**	—
	23,940,006	24,246,402

28. BORROWINGS

	2018	2017
Current		
Short-term bank borrowings		
– unsecured	**3,000,000**	3,990,000

(a) The Group's borrowings are repayable as follows:

	2018	2017
Within 1 year	**3,000,000**	3,990,000

(b) The carrying amounts of the Group's borrowings are denominated in the following currency:

	2018	2017
RMB	**3,000,000**	3,990,000

(c) The average coupon rates in respect of borrowings at the respective dates of statement of financial position are set out as follows:

	2018	2017
Bank borrowings	**4.11%**	4.23%

Interest rates of the bank borrowings denominated in RMB are reset periodically by reference to the primary rates announced by PBOC or prevailing market interest rates.

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28. BORROWINGS (CONTINUED)

(d) The exposure of the Group's borrowings to interest-rate changes and contractual repricing dates at the respective date of statement of financial position are as follows:

	2018	2017
Within 6 months	2,400,000	—
Between 6 and 12 months	600,000	3,990,000
	3,000,000	3,990,000

(e) The Group has the following undrawn borrowing facilities:

	2018	2017
– Expiring within one year	3,738,833	2,781,367

29. DEFERRED INCOME TAX

(a) The amounts are as follows:

	2018	2017
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	212,965	385,725
– Deferred tax assets to be recovered within 12 months	1,200,553	1,098,529
	1,413,518	1,484,254
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	(40,708)	(51,053)
– Deferred tax liabilities to be recovered within 12 months	(348)	(345)
	(41,056)	(51,398)
Deferred tax assets – net	1,372,462	1,432,856

(b) The gross movements on the deferred income tax assets – net are as follows:

	2018	2017
As at 1 January	1,432,856	1,208,306
(Charged)/credited to profit or loss (Note 12 (a))	(60,394)	305,502
Charged to other comprehensive income	—	(2,382)
Disposal of a subsidiary	—	(78,570)
As at 31 December	1,372,462	1,432,856

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29. DEFERRED INCOME TAX (CONTINUED)

(c) The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets	Provisions for receivable and inventories	Pensions and other post-retirement benefits	Unrealised profit	Accrued expenses and provisions	Fair value adjustment arising from business combination	Deferred income	Tax losses	Others	Total
As at 1 January 2017	269,708	1,945	213,042	238,524	67,934	34,334	399,622	24,109	1,249,218
Credited/(charged) to profit or loss	71,090	(1,133)	171,298	181,451	(8,802)	23,923	(171,254)	47,033	313,606
Disposal of a subsidiary	(33,378)	–	–	(10,810)	–	–	(25,059)	(9,323)	(78,570)
As at 31 December 2017	307,420	812	384,340	409,165	59,132	58,257	203,309	61,819	1,484,254
Credited/(charged) to profit or loss	**36,950**	**433**	**(3,564)**	**52,644**	**(2,493)**	**(818)**	**(155,529)**	**1,641**	**(70,736)**
As at 31 December 2018	**344,370**	**1,245**	**380,776**	**461,809**	**56,639**	**57,439**	**47,780**	**63,460**	**1,413,518**

Deferred tax liabilities	Accelerated tax depreciation	Fair value adjustment arising from business combination	Fair value adjustment arising from property, plant and equipment and land use right	Fair value adjustment arising from investment properties	Fair value adjustment arising from available-for-sale financial assets	Total
As at 1 January 2017	(3,295)	(24,288)	(7,360)	430	(6,399)	(40,912)
(Charged) /credited to profit or loss	(838)	521	–	(7,787)	–	(8,104)
Charged to other comprehensive income	–	–	(1,421)	–	(961)	(2,382)
As at 31 December 2017	(4,133)	(23,767)	(8,781)	(7,357)	(7,360)	(51,398)
(Charged)/credited to profit or loss	**(3,203)**	**507**	**–**	**5,678**	**7,360**	**10,342**
As at 31 December 2018	**(7,336)**	**(23,260)**	**(8,781)**	**(1,679)**	**–**	**(41,056)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. TERMINATION AND POST-EMPLOYMENT BENEFITS

	2018	2017
Termination benefits (a)	**2,979**	7,095
Post-employment benefits (b)	**6,260**	6,712
Post-employment medical insurance plan (c)	**68**	426
	9,307	14,233

(a) The termination benefits recognised in the consolidated statement of profit or loss are as follows:

	2018	2017
Termination benefits, included in staff costs (Note 8)	**(440)**	8,756

(b) The amounts of post-employment benefits recognised in the consolidated statement of financial position are determined as follows:

	2018	2017
Present value of benefit plans	**6,260**	6,712
Unrecognised actuarial losses	**—**	—
Liability in the consolidated statement of financial position	**6,260**	6,712

The movements of post-employment benefits recognised in the consolidated statement of financial position are as follows:

	2018	2017
As at 1 January	**6,712**	5,810
Total expenses (interest cost) (Note 8)	**250**	220
Remeasurements of post-employment benefits recognised in other comprehensive income	**38**	1,420
Benefits paid	**(740)**	(738)
As at 31 December	**6,260**	6,712

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For the year ended 31 December 2018
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30. TERMINATION AND POST-EMPLOYMENT BENEFITS (CONTINUED)

(c) The amounts of medical insurance plan recognised in the consolidated statement of financial position are determined as follows:

	2018	2017
Present value of benefit plan	**68**	426
Unrecognised actuarial losses	**—**	—
Liability in the consolidated statement of financial position	**68**	426

The movements of medical insurance plan recognised in the consolidated statement of financial position are as follows:

	2018	2017
As at 1 January	**426**	510
Total expenses (interest expense) (Note 8)	**16**	19
Remeasurements of medical insurance plan recognised in other comprehensive income	**(160)**	234
Benefits paid	**(214)**	(337)
As at 31 December	**68**	426

The material actuarial assumptions used in valuing these obligations are as follows:

(i) Discount rates adopted and salary increase rate adopted:

	2018	2017
Post-employment benefits and medical insurance plan discount rate	**3.72%**	3.79%
Average salary increase rate	**10% to 12%**	10% to 12%

(ii) Mortality: Average life expectancy of residents in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. DEFERRED INCOME

	2018	2017
Government grants	**305,371**	316,349
Relocation compensation	**11,067**	44,851
	316,438	361,200

During 2018, recognition of deferred income amounting to RMB55,559,000 is credited to profit or loss (2017: RMB58,459,000).

32. PROVISIONS FOR OTHER LIABILITIES

	2018	2017
Products warranties		
As at 1 January	**978,086**	588,557
Additional provision (Note 6)	**854,578**	1,082,619
Untilised during the year	**(904,081)**	(693,090)
As at 31 December	**928,583**	978,086

33. DIVIDENDS

(a) At a meeting held on 27 March 2019, the board of Directors ("Board") proposed a final dividend in respect of the year ended 31 December 2018 of HKD0.64 (2017: HKD0.70) per ordinary share representing total dividend at approximately HKD1,767,036,000 (2017: approximately HKD1,932,695,000) or approximately RMB1,511,558,000 (2017: approximately RMB1,614,554,000). Such dividend is to be approved by the shareholders at the forthcoming annual general meeting of the Company. The consolidated financial statements does not reflect this dividend payable.

(b) Pursuant to the CIT Law, the Company is determined as a Chinese resident enterprise and required to withhold and pay corporate income tax at the specific tax rates according to the CIT Law for its non-PRC resident enterprise shareholders to whom the Company pays dividend. Accordingly, the Company had withheld corporate income tax amounting to approximately HKD69,743,000 or approximately RMB58,263,000 in respect of the final dividend for the year 2017 (withholding corporate income tax for the final dividend for the year 2016: approximately HKD7,551,000 or approximately RMB6,555,000) for its non-PRC resident enterprise shareholders and fully paid in August 2018.

(c) During the year ended 31 December 2018, certain Group's non-wholly owned subsidiaries have approved dividends to non-controlling interests amounting to approximately RMB181,759,000 (2017: approximately RMB62,562,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	2018	2017
Profit before income tax	**5,718,703**	4,055,433
Adjustments for:		
– Provision for impairment of trade and other receivables (Note 6)	**–**	234,392
– Provision for impairment losses on financing assets (note 3.1(c))	**303,510**	—
– Depreciation (Note 6 and Note 15)	**1,078,454**	1,152,488
– Amortisation	**102,040**	95,712
– Write-down inventories to net realisable value (Note 6 and Note 23)	**179,649**	222,646
– Fair value losses/(gains) on financial assets at fair value through profit or loss (Note 7 and Note 21)	**25,882**	(22,138)
– Fair value losses on non-current assets classified as held for sales	**–**	155
– Interests received from available-for-sale financial assets	**–**	(8,721)
– Dividends received from available-for-sale financial assets	**–**	(2,047)
– Gains on disposal of property, plant and equipment (Note 7 and Note 34(b))	**(3,894)**	(8,269)
– Losses on disposal of intangible asset (Note 7)	**29**	—
– Gains on disposal of financial assets at fair value through profit or loss (Note 7)	**(119,335)**	(27,546)
– Dividends received from financial assets at fair value through profit or Loss (Note 7)	**(1,354)**	(2,313)
– Dividends received from financial assets at fair value through other comprehensive income (Note 7)	**(2,250)**	—
– Gains on disposal of wealth management products with principal and interests guaranteed (Note 7)	**(27,912)**	(21,670)
– Gains on disposal of available-for-sale financial assets (Note 7)	**–**	(109,102)
– Gains on disposal of a subsidiary	**–**	(51,553)
– Gains on disposal of an associate	**–**	(1,016)
– Gains on disposal of assets classified as held for sale	**(63,087)**	—
– Fair value gains on investment properties (Note 7 and Note16)	**(3,221)**	(18,972)
– Share of profits less losses of investments accounted for using the equity method	**(70,351)**	(45,444)
– Dilutions gains on investment in an associate	**(6,283)**	—
– Finance income (Note 9)	**(89,270)**	(81,335)
– Finance costs	**142,540**	247,284
– Recognition of deferred income (Note 31)	**(55,559)**	(58,459)
– Foreign exchange (gain)/losses	**(53,196)**	95,644
	7,055,095	5,645,169
Changes in working capital:		
– Inventories	**1,471,886**	(5,123,857)
– Trade and other receivables and amounts due from related parties	**(2,108,492)**	(3,777,741)
– Restricted cash	**224,877**	(560,195)
– Trade and other payables, amounts due to related parties and other liabilities	**(880,416)**	8,642,721
– Operating fund of finance segment	**(300,000)**	800,000
– Interest receivable of finance segment	**(3,174)**	(15,827)
– Receipt of government grant	**10,797**	96,110
– Provisions for other liabilities	**(49,503)**	431,670
– Termination and post-employment benefits obligations	**(4,804)**	2,049
Cash generated from operations	**5,416,266**	6,140,099

(All amounts in RMB thousands unless otherwise stated)

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2018	2017
Net book amount (Note 15)	16,286	39,184
Gains on disposal of property, plant and equipment (Note 34(a))	3,894	8,269
Net-off with payables	–	(26,920)
Proceeds from disposal of property, plant and equipment	20,180	20,533

(c) Major non-cash transactions

For the year ended 31 December 2018, the Group endorsed bank acceptance notes to the suppliers for purchase of property, plant and equipment amounting to approximately RMB158,965,000 (2017: approximately RMB326,679,000).

(d) Non-cash financing activities

	2018	2017
Disposal of a subsidiary – bank borrowings	–	(1,870,000)
Capital injection by intangible assets from non-controlling interests	–	3,404

(e) Reconciliation of liabilities from financing activities

	Liabilities from financing activities		
	Borrowings from third parties due within 1 year	Borrowings from related parties due within 1 year	Total
Net debt as at 31 December 2017	3,990,000	36,000	4,026,000
Financing cash flows	(690,000)	—	(690,000)
Operating cash flows (i)	(300,000)	—	(300,000)
Net debt as at 31 December 2018	3,000,000	36,000	3,036,000

(i) Borrowings arising from finance segment is reflected as operating cash flow.

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35. CONTINGENCIES AND GUARANTEES

The Directors are of the opinion that there is no material liability in respect of legal claims. The provision for guarantees of products warranties has been disclosed in Note 32.

36. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the year end but not yet incurred is as follows:

	2018	2017
Property, plant and equipment	**379,751**	397,246

(b) Operating lease commitments – As a lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
No later than 1 year	**11,753**	19,829
Later than 1 year and no later than 2 years	**4,677**	981
Later than 2 years and no later than 5 years	**718**	92
	17,148	20,902

(c) Lease payments receivable – As a lessor

The future aggregate minimum lease payments receivable under non-cancellable operating leases in respect of investment properties, warehouses, plants and other assets are as follows:

	2018	2017
No later than 1 year	**29,345**	35,352
Later than 1 year and no later than 2 years	**28,660**	3,729
Later than 2 years and no later than 5 years	**34,105**	1,342
Later than 5 years	**35,500**	995
	127,610	41,418

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37. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Effects of changes in ownership interests in a subsidiary without change of control on the equity

In May and December 2018, the Group completed the additional capital injection for a consideration of RMB638,159,000 and RMB115,846,000, respectively in ShanDong HOWO Auto Finance Co., Ltd., which subsequently increased its equity interest to 83.33%. The dilution of effect on capital injections to non-controlling interest is loss of RMB9,859,000.

In September 2018, the Group acquired 0.16% equity of Sinotruk Finance Co., Ltd. for a consideration of RMB6,793,000, which subsequently increased the Group's equity interest to 94.65%. As at 31 December 2018, the consideration has not been paid yet.

38. RELATED PARTY TRANSACTIONS

The immediate holding company of the Group is Sinotruk (BVI) Limited, a company incorporated in the British Virgin Islands. The ultimate holding company of the Group is CNHTC which is a state-owned company established in the PRC and is controlled by the PRC Government.

The Group is an associated company of MAN Finance and Holding S.A., a non-wholly owned subsidiary of Ferdinand Porsche Familien – Privatstiftung (“FPFPS”). FPFPS and its subsidiaries are referred as the FPFPS Group.

Hongye is a jointly controlled entity of the Group. Prinx Cayman and its subsidiaries (referred as “Prinx Cayman Group”), Panzhihua Mining Truck and Changjiu Sinotruk are associated companies of the Group.

The Directors consider that the major related parties are the CNHTC Group, FPFPS Group, Hongye, Prinx Cayman Group, Panzhihua Mining Truck and Changjiu Sinotruk, key management personnel of the Company and CNHTC as well as their close family members, and other PRC government-related entities (“Other State-owned Enterprises”).

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38. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant related party transactions

	2018	2017
Transactions with related parties		
(i) CNHTC Group		
Sales of trucks	448,658	1,294,317
Purchases of trucks	2,586,268	1,870,721
Sales of spare parts	844,155	457,660
Purchases of spare parts	1,309,057	1,256,393
Supply of auxilliary production services	12,633	4,343
Purchases of general services	94,292	109,246
Rental income	17,148	14,542
Rental expenses	17,757	17,135
Purchases of construction and project management services	33,799	28,662
Provision for technology support and services	6,389	6,966
Purchase of technology development	22,642	20,755
Interest expenses for deposits taking services	8,451	7,265
Purchases of fixed assets	—	101
Interest expenses for accepting loan service	1,570	1,588
Aggregate of interest income for loan service	6,518	10,352
Fee income	484	344
	5,409,821	5,100,390
(ii) FPFPS Group		
Sales of spare parts	28,045	44,214
(iii) Prinx Cayman Group		
Purchases of spare parts	310,509	266,182
Sales of raw materials	60,734	135,927
	371,243	402,109
(iv) Hongye		
Sales of trucks	1,299,231	993,732
Aggregate of interest expenses for deposits taking services	934	111
Purchases of spare parts	7,707	30,199
	1,307,872	1,024,042
(v) Changjiu Sinotruk		
Purchases of general services	6,913	—

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38. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant related party transactions (Continued)

	2018	2017
Transactions with related parties (Continued)		
(vi) Key management		
Salaries and other short-term benefits	7,506	8,053
Post-employment benefits	279	287
	7,785	8,340

(vii) Other State-owned Enterprises

The Group has transactions with Other State-owned Enterprises including but not limited to sales of products, purchase of raw material and services, deposits placement and borrowings. The Directors are of the opinion that these transactions are conducted in the ordinary business of the Group and no disclosure is presented.

(b) Balances with related parties

	2018	2017
Amounts due from related parties		
(i) CNHTC Group		
Trade receivables	2,661	2,197
Loans	150,000	—
	152,661	2,197
(ii) FPFPS Group		
Prepayments	—	340
(iii) Prinx Cayman Group		
Trade receivables	1,936	1,843
(iv) Hongye		
Trade receivables	365,550	337,308
Other receivables	85	11,080
	365,635	348,388
	520,232	352,768

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38. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (Continued)

The carrying amounts due from related parties excluding prepayment are denominated in the following currencies:

	2018	2017
USD	**347,074**	5,764
RMB	**152,661**	345,078
EUR	**20,497**	—
HKD	**—**	1,586
	520,232	352,428

The ageing analysis of trade receivables from related parties based on invoice date at respective dates of statement of financial position are as follows:

	2018	2017
Less than 3 months	**335,739**	325,056
3 months to 6 months	**34,408**	16,281
6 months to 12 months	**—**	—
1 year to 2 years	**—**	11
2 years to 3 years	**—**	—
	370,147	341,348

The ageing analysis of loan to a related party as at the respective date of statement of financial position is as follows:

	2018	2017
6 months to 12 months	**150,000**	—

The interest rate of loan to a related party is 4.13% per annum.

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38. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (Continued)

	2018	2017
Amounts due to related parties		
(i) CNHTC Group		
Trade payables	7,499	5,684
Other payables	10,351	6,210
Advances from customers	—	13,642
Contract liabilities	7,363	—
Deposits taking	122,062	1,138,263
Borrowings	36,000	36,000
	183,275	1,199,799
(ii) Prinx Cayman Group		
Trade payables	57,758	17,675
Advances from customers	—	222
	57,758	17,897
(iii) Panzhihua Mining Truck		
Advances from customers	—	150
(iv) Hongye		
Other payables	94,503	134,055
Deposits taking	126,497	64,484
	221,000	198,539
(v) Changjiu Sinotruk		
Trade payables	5,014	—
Other payables	289	—
	5,303	—
	467,336	1,416,385

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38. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (Continued)

The carrying amounts due to related parties excluding contract liabilities/advances from customers are denominated in the following currencies:

	2018	2017
RMB	**365,470**	1,265,580
USD	**50,101**	86,908
HKD	**44,402**	49,883
	459,973	1,402,371

The ageing analysis of trade payables to related parties at respective dates of statement of financial position are as follows:

	2018	2017
Less than 3 months	**69,705**	22,709
3 months to 6 months	**566**	—
6 months to 12 months	**—**	650
	70,271	23,359

As at 31 December 2018 and 2017, except for deposits taking and borrowings, amounts due from/to related parties were all unsecured, interest free and due within one year. As at 31 December 2018 and 2017, deposits taking and borrowings from related parties were unsecured and due within one year, and bearing with interest at rate of 4.13% (2017: 4.35%) for borrowings.

As at 31 December 2018 and 2017, trade receivables due from related parties were not past due nor impaired.

Balances with Other State-owned Enterprises

As at 31 December 2018 and 2017, majority of the Group's bank balances and borrowings are with state-owned banks.

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39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY

Statement of financial position of the Company

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Land use rights		**16,253**	16,272
Property, plant and equipment		**352**	396
Deferred income tax assets		**11,975**	1,627
Investments in subsidiaries		**19,513,207**	18,759,202
Amounts due from subsidiaries		**—**	1,060,000
		19,541,787	19,837,497
Current assets			
Amounts due from subsidiaries		**19,339**	19,885
Dividends receivable		**714,948**	271,246
Receivables and other assets		**1,737**	36,369
Cash and bank balances		**12,997**	116,819
		749,021	444,319
Total assets		**20,290,808**	20,281,816

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39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY (CONTINUED)

Statement of financial position of the Company (Continued)

	Note	31 December 2018	31 December 2017
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**16,717,024**	16,717,024
Retained earnings	(a)	**1,578,977**	1,847,918
Total equity		**18,296,001**	18,564,942
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries		**1,986,293**	1,706,101
Other payables		**8,514**	10,773
		1,994,807	1,716,874
Total liabilities and total current liabilities		**1,994,807**	1,716,874
Total equity and liabilities		**20,290,808**	20,281,816

The statement of financial position of the Company was approved by the Board of Directors on 27 March 2019 and was signed on its behalf.

Cai Dong
Director

Sun Chenglong
Director

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39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY (CONTINUED)

(a) Reserve movements of the Company

	Retained earnings
At 1 January 2017	994,186
Profit for the year	1,046,761
Dividends relating to 2016	(193,029)
At 31 December 2017	1,847,918
Profit for the year	**1,345,613**
Dividends relating to 2017	**(1,614,554)**
At 31 December 2018	**1,578,977**

40. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The Company does not have a chief executive who is not also the Director.

The remuneration of each Director for the year ended 31 December 2018 is set out below:

Name of Director	Fees	Basic salaries	Discretionary bonus	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Total
Mr. Cai Dong	–	660	–	85	36	781
Mr. Wang Shanpo	–	528	–	101	36	665
Mr. Liu Wei	–	528	–	101	36	665
Mr. Liu Peimin	–	528	–	96	34	658
Ms. Wan Chunling (a)	–	–	–	–	–	–
Mr. Dai Lixin (b)	–	88	–	–	–	88
Mr. Jörg Mommertz (c)	–	92	–	–	–	92
Mr. Andreas Hermann Renschler	180	–	–	–	–	180
Mr. Joachim Gerhard Drees	180	–	–	–	–	180
Mr. Jiang Kui (d)	–	–	–	–	–	–
Dr. Lin Zhijun	180	–	–	–	–	180
Mr. Chen Zheng	180	–	–	–	–	180
Mr. Yang Weicheng	180	–	–	–	–	180
Dr. Wang Dengfeng	180	–	–	–	–	180
Mr. Zhao Hang	180	–	–	–	–	180
Mr. Liang Qing	180	–	–	–	–	180
Mr. Wang Bozhi (e)	–	550	–	43	27	620
Mr. Tong Jingen (f)	–	440	–	78	27	545
Mr. Kong Xiangquan (g)	–	440	–	75	27	542
Mr. Franz Neundlinger (h)	–	446	–	–	–	446
Mr. Matthias Gründler (i)	75	–	–	–	–	75

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

40. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and chief executive's emoluments (Continued)

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

Name of Director	Fees	Basic salaries	Discretionary bonus	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Total
Mr. Cai Dong	—	652	—	100	33	785
Mr. Wang Shanpo	—	568	—	95	33	696
Mr. Liu Wei	—	568	—	95	33	696
Mr. Liu Peimin	—	568	—	94	32	694
Mr. Andreas Hermann Renschler	180	—	—	—	—	180
Mr. Joachim Gerhard Drees	180	—	—	—	—	180
Dr. Lin Zhijun	180	—	—	—	—	180
Mr. Chen Zheng	180	—	—	—	—	180
Mr. Yang Weicheng	180	—	—	—	—	180
Dr. Wang Dengfeng	180	—	—	—	—	180
Mr. Zhao Hang	180	—	—	—	—	180
Mr. Liang Qing	180	—	—	—	—	180
Mr. Ma Chunji	—	672	—	53	33	758
Mr. Wang Bozhi (e)	—	—	—	—	—	—
Mr. Tong Jingen (f)	—	568	—	97	33	698
Mr. Kong Xiangquan (g)	—	568	—	94	33	695
Mr. Franz Neundlinger (h)	—	551	—	—	—	551
Mr. Matthias Gründler (i)	120	—	—	—	—	120

(a) Ms. Wan Chunling was appointed as executive director on 30 October 2018 and resigned on 29 January 2019. She waived all her emoluments during her tenure.

(b) Mr. Dai Lixin was appointed as executive director on 30 October 2018.

(c) Mr. Jörg Mommertz was appointed as executive director on 30 October 2018.

(d) Mr. Jiang Kui was appointed as non-executive director on 30 October 2018 and waived his emoluments during his appointment as non-excutive director.

(e) Mr. Wang Bozhi was appointed as director on 22 December 2017 and resigned as executive director with effect from 30 October 2018.

(f) Mr. Tong Jingen resigned as executive director with effect from 30 October 2018.

(g) Mr. Kong Xiangquan resigned as executive director with effect from 30 October 2018.

(h) Mr. Franz Neundlinger resigned as executive director with effect from 30 August 2018.

(i) Mr. Matthias Gründler resigned as non-executive director with effect from 1 June 2018 and waived his emoluments at RMB60,000 in 2017.

40. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available Directors' services during the year.

(c) Information about loans, quasi-loans and other dealings in favour of Directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings were made available in favour of Directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the year.

(d) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

FIVE YEARS FINANCIAL SUMMARY

OPERATING RESULTS

	For the year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
Revenue	32,809,402	28,304,893	32,958,901	55,457,928	**61,784,667**
Profit before income tax	804,228	426,135	921,582	4,055,433	**5,718,703**
Income tax expense	(209,269)	(102,694)	(258,750)	(719,538)	**(993,058)**
Profit for the year	594,959	323,441	662,832	3,335,895	**4,725,645**
Attributed to:					
Owners of the Company	408,032	205,946	532,105	3,023,023	**4,344,545**
Non-controlling interests	186,927	117,495	130,727	312,872	**381,100**
Profit for the year	594,959	323,441	662,832	3,335,895	**4,725,645**

ASSETS, LIABILITIES AND EQUITY

	As at 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
Total assets	44,292,792	42,335,438	49,485,343	61,183,016	**61,680,411**
Total liabilities	23,046,413	20,619,768	27,146,246	35,752,305	**33,352,559**
Total equity:					
Owners of the Company	19,170,878	19,338,120	19,911,809	22,757,463	**25,475,545**
Non-controlling interests	2,075,501	2,377,550	2,427,288	2,673,248	**2,852,307**
	21,246,379	21,715,670	22,339,097	25,430,711	**28,327,852**

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