北京汽車股份有限公司

BAIC MOTOR CORPORATION LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1958)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

The board of directors (the "**Board**") of BAIC Motor Corporation Limited (the "**Company**") is pleased to announce the audited results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended December 31, 2017 ("**2017**") in conjunction with the comparative financial data of the previous year.

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2017

		As at December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**42,370,945**	40,071,342
Land use rights		**7,462,383**	5,482,557
Intangible assets		**13,738,986**	13,446,115
Investments accounted for using equity method		**14,706,908**	17,913,651
Available-for-sale financial assets		**2,355,239**	536,480
Deferred income tax assets	*4*	**7,035,788**	5,504,386
Other long-term assets		**938,824**	972,847
		88,609,073	83,927,378
Current assets			
Inventories		**16,875,871**	14,166,927
Accounts receivable	*5*	**19,882,114**	27,188,927
Advances to suppliers	*6*	**563,410**	1,163,249
Other receivables and other current assets	*7*	**4,102,529**	4,802,738
Restricted cash		**545,073**	1,587,258
Cash and cash equivalents		**36,824,906**	36,063,909
		78,793,903	84,973,008
Total assets		**167,402,976**	168,900,386

CONSOLIDATED BALANCE SHEET (Continued)

AS AT DECEMBER 31, 2017

		As at December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*8*	**7,595,338**	7,595,338
Other reserves		**18,982,383**	17,636,248
Retained earnings		**14,258,311**	14,928,521
		40,836,032	40,160,107
Non-controlling interests		**18,804,890**	17,873,214
Total equity		**59,640,922**	58,033,321
LIABILITIES			
Non-current liabilities			
Borrowings	*9*	**13,166,960**	7,809,091
Deferred income tax liabilities	*4*	**877,807**	808,608
Provisions		**2,498,714**	2,067,044
Deferred income		**4,157,716**	2,021,757
		20,701,197	12,706,500
Current liabilities			
Accounts payable	*10*	**35,559,081**	41,892,244
Advances from customers		**405,371**	463,128
Other payables and accruals	*11*	**27,061,979**	24,413,446
Current income tax liabilities		**3,715,161**	2,326,451
Borrowings	*9*	**18,478,051**	27,569,624
Provisions		**1,841,214**	1,495,672
		87,060,857	98,160,565
Total liabilities		**107,762,054**	110,867,065
Total equity and liabilities		**167,402,976**	168,900,386

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	For the year ended December 31 **2017** *RMB'000*	2016 *RMB'000*
Revenue	*3*	**134,158,541**	116,198,983
Cost of sales	*13*	**(98,659,286)**	(89,967,328)
Gross profit		**35,499,255**	26,231,655
Selling and distribution expenses	*13*	**(11,919,545)**	(10,603,075)
General and administrative expenses	*13*	**(5,006,953)**	(4,297,442)
Other (losses)/gains, net	*12*	**(1,054,684)**	189,115
Operating profit		**17,518,073**	11,520,253
Finance income	*14*	**659,503**	417,905
Finance costs	*14*	**(1,107,422)**	(885,767)
Finance costs, net		**(447,919)**	(467,862)
Share of (loss)/profit of investments accounted for using equity method		**(33,791)**	4,216,700
Profit before income tax		**17,036,363**	15,269,091
Income tax expense	*15*	**(6,038,062)**	(3,732,936)
Profit for the year		**10,998,301**	11,536,155
Profit attributable to:			
Equity holders of the Company		**2,252,813**	6,366,930
Non-controlling interests		**8,745,488**	5,169,225
		10,998,301	11,536,155
Earnings per share for profit attributable to equity holders of the company for the year (expressed in RMB per share)			
Basic and diluted	*16*	**0.30**	0.84

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2017

		For the year ended December 31	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Profit for the year		**10,998,301**	11,536,155
Other Comprehensive Income:			
Items that may be reclassified to profit or loss			
Cash flow hedges, net of tax		**172,984**	(152,267)
Fair value gains on available-for-sale financial assets, net of tax		**538,627**	–
Currency translation differences		**(1,175)**	65
Other comprehensive income/(loss) for the year		**710,436**	(152,202)
Total comprehensive income for the year		**11,708,737**	11,383,953
Attributable to:			
Equity holders of the Company		**2,878,782**	6,289,309
Non-controlling interests		**8,829,955**	5,094,644
		11,708,737	11,383,953

NOTES:

1 GENERAL INFORMATION

BAIC Motor Corporation Limited (the "**Company**" or "**Beijing Motor**"), together with its subsidiaries (collectively referred to as the "**Group**"), are principally engaged in the manufacturing and sales of passenger vehicles, engines and auto parts in the People's Republic of China (the "**PRC**").

The address of the Company's registered office is A5-061, Unit 101, 5th Floor, Building No.1, Courtyard No.99 Shuanghe Street, Shunyi District, Beijing, the PRC.

The Company was incorporated in the PRC on September 20, 2010 as a joint stock company with limited liability under Company Law of the PRC. The immediate parent company of the Company is Beijing Automotive Group Co., Ltd. ("**BAIC Group**"), which is beneficially owned by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality (the "**SASAC Beijing**"). The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since December 19, 2014 (the "**Listing**").

These financial statements are presented in Renminbi Yuan ("**RMB**"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on March 22, 2018.

2 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRS**") and disclosure 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 available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, as appropriate.

As at December 31, 2017, the current liabilities of the Group exceeded its current assets by approximately RMB8,267 million. Given the debt obligations and working capital requirements, management has thoroughly considered the Group's available sources of the funds as follows:

- the Group's continuous net cash generated from operating and financing activities; and
- undrawn short-term and long-term banking facilities of approximately RMB205 million and RMB23,240 million respectively as at December 31, 2017.

Based on the above considerations, the directors of the Company are of the opinion that the Group has sufficient available financial resources to meet or refinance its working capital requirements as and when they fall due. As a result, these financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Group's accounting policies.

New/revised standards, amendments to standards and interpretations

(a) Adoption of new standards and amendments to standards

The Group has adopted the following new standard and amendments and interpretation which are mandatory for the financial year beginning on January 1, 2017:

IAS 7 (Amendment)	Disclosure on changes in liabilities arising from financing activities
IAS 12 (Amendment)	Deferred tax assets for unrealised losses

The adoption of above amendments does not have any significant financial effect on these consolidated financial statements.

(b) Standards and amendments which are not yet adopted

The following are new standards and amendments to standards that have been issued but are not yet effective for December 31, 2017 reporting period, and have not been early adopted by the Group.

IFRS 2 (Amendment)	Clarification and Measurement of Share-based Payment Transactions(1)
IAS 40 (Amendment)	Transfers of investment property(1)
IFRIC 22	Foreign Currency Transactions and Advance Consideration(1)
IFRS 10 and IAS 28 (Amendment)	Sale or distribution of assets between an investor and its associate or joint venture(3)
IFRIC 23	Uncertainty over Income Tax Treatments(2)
IFRS 9	Financial Instruments (1) (i)
IFRS 15	Revenue from Contracts with Customers (1) (ii)
IFRS 16	Lease (2) (iii)

(1) Change effective for the accounting period beginning on January 1, 2018
(2) Change effective for the accounting period beginning on January 1, 2019
(3) Effective date to be determined

Except for the followings, most of above new standards and amendments to standard are not expected to have a significant effect on the consolidated financial statements of the Group.

(i) IFRS 9 "Financial instruments"

IFRS 9 "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets given fair value through other comprehensive income ("**FVOCI**") election is available for the equity instruments which are currently classified as available-for-sale ("**AFS**").

There will not be a significant impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss. The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. However, at this stage the Group does not expect to identify any new hedge relationships. It would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of IFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("**ECL**") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after January 1, 2018. The Group does not expect this new standard to have a material impact to the financial statements.

(ii) IFRS 15 "Revenue from contracts with customers"

The International Accounting Standards Board ("**IASB**") has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

IFRS 15 is mandatory for financial years commencing on or after January 1, 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and that comparatives will not be restated.

Management has identified the following areas that are likely to be affected:

- bundle sales – the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

- accounting for costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognized as an asset under IFRS 15.

(iii) IFRS 16 "Leases"

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, 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 recognized. 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. The Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim period within annual reporting period beginning on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

3 SEGMENT INFORMATION

The Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's Executive Committee, in order to allocate resources to the segments and assess their performance. For each of the Group's reportable segments, the Group's Executive Committee reviews internal management reports on monthly basis, at a minimum. Management has determined the reporting segments based on these reports.

The Group considers the business from a product perspective and has the following reportable segments:

- Passenger vehicles of Beijing Brand: manufacturing and sales of passenger vehicles of BAIC brands, and providing other businesses and related services.

- Passenger vehicles of Beijing Benz Automotive Co., Ltd. ("**Beijing Benz**"): manufacturing and sales of passenger vehicles of Beijing Benz brand, and providing other related services.

Management defines segment results based on gross profit. Information about reportable segments and reconciliations of reportable segment results are as follows:

	Passenger vehicles – Beijing Brand *RMB'000*	**Passenger vehicles – Beijing Benz** *RMB'000*	**Elimination** *RMB'000*	**Total** *RMB'000*
For the year ended December 31, 2017				
Total revenue	**17,502,463**	**116,772,928**	**(116,850)**	**134,158,541**
Inter-segment revenue	**(116,850)**	**–**	**116,850**	**–**
Revenue from external customers	**17,385,613**	**116,772,928**	**–**	**134,158,541**
Gross profit/(loss)	**(2,679,696)**	**38,178,951**	**–**	**35,499,255**
Other profit & loss disclosure:				
Selling and distribution expenses				**(11,919,545)**
General and administrative expenses				**(5,006,953)**
Other loss, net				**(1,054,684)**
Finance cost, net				**(447,919)**
Share of loss of investments accounted for using equity method				**(33,791)**
Profit before income tax				**17,036,363**
Income tax expense				**(6,038,062)**
Profit for the year				**10,998,301**
Other information:				
Significant non-cash expenses				
Depreciation and amortization	**(2,579,812)**	**(3,268,244)**		**(5,848,056)**
Provisions for impairments on assets	**(122,793)**	**(73,413)**		**(196,206)**
As at December 31, 2017				
Total assets	**85,232,084**	**93,706,055**	**(11,535,163)**	**167,402,976**
Including:				
Investments accounted for using equity method	**14,706,908**	**–**		**14,706,908**
Total liabilities	**(52,642,332)**	**(55,138,746)**	**19,024**	**(107,762,054)**

	Passenger vehicles – Beijing Brand *RMB'000*	Passenger vehicles – Beijing Benz *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
For the year ended December 31, 2016				
Total revenue	30,965,269	85,312,009	(78,295)	116,198,983
Inter-segment revenue	(78,295)	–	78,295	–
Revenue from external customers	30,886,974	85,312,009	–	116,198,983
Gross profit	857,075	25,374,580	–	26,231,655
Other profit & loss disclosure:				
Selling and distribution expenses				(10,603,075)
General and administrative expenses				(4,297,442)
Other gains, net				189,115
Finance cost, net				(467,862)
Share of profit of investments accounted for using equity method				4,216,700
Profit before income tax				15,269,091
Income tax expense				(3,732,936)
Profit for the year				11,536,155
Other information:				
Significant non-cash expenses				
Depreciation and amortization	(2,092,726)	(2,844,406)		(4,937,132)
Provisions for impairments on assets	(120,137)	(194,816)		(314,953)
As at December 31, 2016				
Total assets	96,976,562	83,730,882	(11,807,058)	168,900,386
Including:				
Investments accounted for using equity method	17,913,651	–	–	17,913,651
Total liabilities	(64,719,639)	(47,185,379)	1,037,953	(110,867,065)

There is no customer accounting for 10 percent or more of the Group's revenue for each of the years ended December 31, 2017 and 2016.

The Group is domiciled in PRC. The percentage of its revenue from external customers residing in the PRC is approximately 99.9% for the year ended December 31, 2017 (the year ended December 31, 2016: 99.5%).

As at December 31, 2017, the percentage of the Group's non-current assets, other than financial instruments and deferred income tax assets, located in the mainland of the PRC is approximately 98.2% (as at December 31, 2016: 98.3%).

4 DEFERRED INCOME TAXES

	As at December 31, **2017** *RMB'000*	2016 *RMB'000*
Deferred income tax assets:		
– to be recovered after more than 12 months	**1,994,223**	1,916,714
– to be recovered within 12 months	**5,041,565**	3,587,672
	7,035,788	5,504,386
Deferred income tax liabilities:		
– to be settled after more than 12 months	**(740,856)**	(764,421)
– to be settled within 12 months	**(136,951)**	(44,187)
	(877,807)	(808,608)

The movement in deferred income tax assets and liabilities is as follows:

Deferred income tax assets	**Provisions for impairment losses** *RMB'000*	**Accruals** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
At January 1, 2017	**213,259**	**4,744,926**	**546,201**	**5,504,386**
Credited/(Charged) to statement of comprehensive income	**(26,745)**	**794,653**	**763,494**	**1,531,402**
At December 31, 2017	**186,514**	**5,539,579**	**1,309,695**	**7,035,788**
At January 1, 2016	181,909	3,696,780	329,920	4,208,609
Credited to statement of comprehensive income	31,350	1,048,146	216,281	1,295,777
At December 31, 2016	213,259	4,744,926	546,201	5,504,386

Deferred income tax liabilities	**Capitalized interest** *RMB'000*	**Valuation surplus upon acquisition of a subsidiary** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
At January 1, 2017	(44,188)	(764,420)	–	(808,608)
Credited/(Charged) to statement of comprehensive income	2,289	23,565	(95,053)	(69,199)
At December 31, 2017	(41,899)	(740,855)	(95,053)	(877,807)
At January 1, 2016	(44,304)	(795,667)	–	(839,971)
Credited to statement of comprehensive income	116	31,247	–	31,363
At December 31, 2016	(44,188)	(764,420)	–	(808,608)

Deferred income tax assets are recognized for tax loss carry forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets in respect of losses and deductible temporary differences amounting to RMB18,917,452,000 (2016: RMB13,539,063,000) that can be carried forward against future taxable income as at December 31, 2017. The unrecognized tax loss amounting to RMB17,627,529,000 (December 31,2016: RMB12,942,691,000) can carry forward for utilization in future but are expiring within five years.

5 ACCOUNTS RECEIVABLE

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables, gross *(note (a))*	**11,670,328**	12,549,502
Less: provision for impairment	**(49,286)**	(1,037)
	11,621,042	12,548,465
Notes receivable *(note (b))*	**8,261,072**	14,640,462
	19,882,114	27,188,927

Notes:

(a) The majority of the Group's sales are on credit. A credit period of 1 month to 6 months for trade receivables and up to 3 to 6 months for notes receivable may be granted in respect of sales to customers with good credit history and long-established relationship with the Group. The ageing analysis of trade receivables is as follows:

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Current to 1 year	**7,766,546**	12,384,642
1 to 2 years	**3,806,594**	144,618
2 to 3 years	**83,503**	18,400
Over 3 years	**13,685**	1,842
	11,670,328	12,549,502

As at December 31, 2017 and 2016, the ageing analysis of past due but not impaired receivables is as follows:

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**37,723**	72,855
1 to 2 years	**95,075**	144,618
2 to 3 years	**83,503**	16,685
Over 3 years	**10,128**	1,842
	226,429	236,000

As at December 31, 2017 and 2016, movement on the provision for impairment of trade receivables is as follows:

	2017	2016
	RMB'000	*RMB'000*
As at January 1	**1,037**	1,047
Provision for impairment recognised during the year	**48,249**	–
Reversal of provision for impairment	**–**	(10)
As at December 31	**49,286**	1,037

(b) Substantially all notes receivable are with maturity period of within six months.

(c) All accounts receivable are denominated in RMB and their carrying amounts approximate fair values.

(d) There is no trade receivable pledged as collateral.

(e) The amounts of notes receivable pledged as collateral for notes payable issued by banks and for borrowings as at respective balance sheet dates are as follows:

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Pledged notes receivable	**5,286,310**	7,334,597

6 ADVANCES TO SUPPLIERS

In the ordinary course of business, the Group is required to make advance payments to certain suppliers according to the terms of respective agreements. The advance payments made to these parties are unsecured, non-interest bearing and will be settled or utilized in accordance with the terms of relevant agreements.

7 OTHER RECEIVABLES AND OTHER CURRENT ASSETS

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Value-added tax to be deducted and prepaid consumption tax	**3,365,230**	2,168,603
Service fee	**83,306**	456,390
Deposit	**7,647**	174,787
Receivable from sales of raw materials	**451,325**	1,555,787
Government grants	**–**	150,000
Disposal of property, plant and equipment	**139,431**	139,431
Others	**189,144**	181,198
	4,236,083	4,826,196
Less: provision for impairment	**(133,554)**	(23,458)
	4,102,529	4,802,738

8 SHARE CAPITAL

	Ordinary shares of RMB1 each *('000)*	*RMB'000*
At January 1 and December 31, 2016, and January 1 and December 31, 2017	7,595,338	7,595,338

9 BORROWINGS

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Non-current		
Unsecured borrowings		
– Bank borrowings	**3,077,269**	818,219
– Corporate bonds *(note (a))*	**10,089,691**	6,990,872
Total non-current borrowings	**13,166,960**	7,809,091
Current		
Unsecured borrowings		
– Bank borrowings	**15,716,263**	18,708,977
Add: current portion of non-current bank borrowings	**762,480**	831,220
Corporate bonds *(note (a))*	**1,999,308**	8,029,427
Total current borrowings	**18,478,051**	27,569,624
Total borrowings	**31,645,011**	35,378,715

Maturity of borrowings

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**18,478,051**	27,569,624
Between 1 and 2 years	**166,480**	688,480
Between 2 and 5 years	**7,400,560**	4,622,774
Over 5 years	**5,599,920**	2,497,837
	31,645,011	35,378,715
Wholly repayable:		
– within 5 years	**26,045,091**	32,880,878
– over 5 years	**5,599,920**	2,497,837
	31,645,011	35,378,715

Contractual repricing dates upon interest rate changes

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Within 6 months	**16,520,000**	18,348,786
6 to 12 months	**504,660**	403,600
	17,024,660	18,752,386

Weighted average annual interest rates

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Borrowings	**3.71%**	3.95%
Corporate bonds	**3.99%**	3.66%

Currency denomination

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
RMB	**29,682,159**	33,598,358
Euro	**1,962,852**	1,780,357
	31,645,011	35,378,715

Undrawn facilities at floating rates

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**205,000**	350,000
Over 1 year	**23,240,275**	22,140,971
	23,445,275	22,490,971

Notes:

(a) Corporate bonds are analyzed as follows:

Issuer	Issue date	Interest rate per annum	Par value	Carrying value	Maturity
			RMB'000	*RMB'000*	
At December 31, 2017					
BAIC Investment Co., Ltd. (“**BAIC Investment**”)	10 December 2015	3.60%	1,500,000	1,498,169	5 years
BAIC Investment	17 March 2016	3.15%	1,500,000	1,498,023	5 years
BAIC Investment	20 January 2017	4.29%	800,000	799,521	7 years
The Company	10 September 2014	5.74%	400,000	399,400	7 years
The Company	22 September 2014	5.54%	300,000	299,550	7 years
The Company	22 September 2014	5.54%	300,000	299,550	7 years
The Company	12 February 2015	4.68%	500,000	499,500	5 years
The Company	22 April 2016	3.45%	2,500,000	2,498,095	7 years
The Company	4 July 2017	4.72%	2,300,000	2,297,883	7 years
The Company	21 July 2017	4.41%	2,000,000	1,999,308	270 days
				12,088,999	
At December 31, 2016					
BAIC Investment	January 29, 2010	5.18%	1,435,500	1,432,476	7 years
BAIC Investment	December 10, 2015	3.60%	1,500,000	1,497,590	5 years
BAIC Investment	March 17, 2016	3.15%	1,500,000	1,497,446	5 years
The Company	August 12, 2014	5.40%	1,000,000	999,386	3 years
The Company	September 10, 2014	5.74%	400,000	399,400	7 years
The Company	September 22, 2014	5.54%	300,000	299,550	7 years
The Company	September 22, 2014	5.54%	300,000	299,550	7 years
The Company	February 12, 2015	4.68%	500,000	499,500	5 years
The Company	April 22, 2016	3.45%	2,500,000	2,497,837	7 years
The Company	August 12, 2016	2.65%	2,500,000	2,499,015	270 days
The Company	October 12, 2016	2.72%	2,500,000	2,498,549	270 days
Beijing Benz	December 11, 2014	5.20%	600,000	600,000	3 years
				15,020,299	

(b) Balances at December 31, 2017 include borrowings of RMB3,616 million (December 31, 2016:RMB3,187 million) obtained from BAIC Group Finance Co., Ltd., an associate of the Group. The remaining balance of borrowings were obtained from banks.

(c) For the borrowings, the fair value are not materially different to their carrying amounts, since the interest payable on these borrowings is either close to current rate or the borrowings are of a short-term nature.

10 ACCOUNTS PAYABLE

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Trade payables	**26,152,675**	31,975,338
Notes payable	**9,406,406**	9,916,906
	35,559,081	41,892,244

Aging analysis of trade payables is as follows:

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Current to 1 year	**26,073,357**	31,939,550
1 year to 2 years	**68,632**	25,678
2 years to 3 years	**8,885**	8,033
Over 3 years	**1,801**	2,077
	26,152,675	31,975,338

11 OTHER PAYABLES AND ACCRUALS

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Sales discounts and rebates	**7,724,930**	7,713,850
Payable for property, plant and equipment and intangible assets	**3,181,802**	3,618,402
Payable for services	**2,876,349**	2,748,737
Dividend payable	**2,706,338**	902,670
Advertising and promotion	**2,697,697**	2,090,552
Payable for general operations	**2,599,870**	2,627,133
Other taxes	**1,869,813**	1,373,248
Payables for transportation and warehouse expenses	**1,082,664**	644,113
Wages, salaries and other employee benefits	**1,054,840**	939,156
Interests payable	**287,520**	296,937
Deposits	**195,846**	483,739
Others	**784,310**	974,909
	27,061,979	24,413,446

12 OTHER (LOSS)/GAINS, NET

	For the year ended December 31, 2017 *RMB'000*	2016 *RMB'000*
Government grants	**312,950**	302,178
Gain from sales of scrap materials	**3,720**	41,770
Gain on measuring existing interests upon business combination of a subsidiary	**–**	8,864
Gain/(Loss) on disposal of property, plant and equipment and intangible assets	**22,019**	(3,886)
(Loss)/Gain on forward foreign exchange contracts with fair value through profit or loss	**(957,151)**	248,654
Foreign exchange losses	**(408,859)**	(334,282)
Others	**(27,363)**	(74,183)
	(1,054,684)	189,115

13 EXPENSES BY NATURE

	For the year ended December 31, 2017 *RMB'000*	2016 *RMB'000*
Raw materials, finished goods and work-in-progress used	**85,544,688**	77,970,562
Depreciation and amortization	**5,848,056**	4,937,132
Services fee and charges	**5,609,201**	3,950,713
Employee benefit costs	**5,232,168**	4,825,777
Taxes and levies	**3,856,090**	3,256,123
Advertising and promotion	**2,651,509**	2,681,166
Transportation and warehouse expenses	**2,522,595**	1,970,788
Warranty expenses	**1,379,896**	2,099,758
Daily operating expenses	**1,642,331**	2,023,490
Provision for impairment of assets	**196,206**	314,953
Auditor's remuneration-Audit services	**8,822**	9,365
Others	**1,094,222**	828,018
Total cost of sales, selling and distribution expenses, and general and administrative expenses	**115,585,784**	104,867,845

14 FINANCE COSTS, NET

	For the year ended December 31, 2017 RMB'000	2016 RMB'000
Finance income		
Interest on bank deposits	**659,503**	417,905
Finance costs		
Interest expense on borrowings	**783,894**	688,130
Interest expense on corporate bonds	**528,764**	540,426
Amortization of discount on non-current provisions	**154,777**	48,092
	1,467,435	1,276,648
Less: amount capitalized in qualifying assets	**(360,013)**	(390,881)
	1,107,422	885,767
Finance costs, net	**447,919**	467,862

15 INCOME TAX EXPENSE

	For the year ended December 31, 2017 RMB'000	2016 RMB'000
Current income tax	**7,603,125**	5,060,076
Deferred income tax *(Note 4)*	**(1,565,063)**	(1,327,140)
	6,038,062	3,732,936

According to the New and High-Technology Enterprise Certificate jointly issued by the Beijing Municipal Science & Technology Commission, Beijing Municipal Bureau of Finance, Beijing Municipal Office of the State Administration of Taxation and Beijing Local Taxation Bureau, the following entities of the Group were recognized as new and high-technology enterprises with preferential income tax rate of 15%:

	Period with preferential rate
– The Company	2015 to 2017
– Beijing Beinei Engine Parts and Components Co., Ltd.	2015 to 2017
– BAIC Motor Powertrain Co., Ltd.	2016 to 2018

Except for the aforementioned companies and a subsidiary which is subject to Hong Kong profits tax at a rate of 16.5% and one subsidiary in Germany with enterprise income tax rate of 32.8%, provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 25% for the year of 2017 and 2016 on the assessable income of respective group entities in accordance with relevant PRC enterprise income tax rules and regulations.

The reconciliation between the Group's actual tax charge and the amount which is calculated based on the statutory income tax rate of 25% in the PRC is as follows:

	For the year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Profit before income tax	**17,036,363**	15,269,091
Tax calculated at the statutory tax rate of 25%	**4,259,091**	3,817,273
Preferential tax rates on profit or loss of certain Group's subsidiaries	**415,899**	177,050
Impact on share of results of investments accounted for using equity method	**45,601**	(1,053,272)
Income not subject to tax	**(26,354)**	(33,927)
Expenses not deductible for tax purposes	**66,563**	83,387
Utilization of previously unrecognized tax losses	**–**	(1,454)
Tax losses/deductible temporary differences for which no deferred tax was recognized	**1,308,701**	724,596
Additional deduction on research and development expenses	**(31,439)**	(102,770)
Payment of income tax of previous years	**–**	122,053
Tax charge	**6,038,062**	3,732,936

16 EARNINGS PER SHARE

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

	For the year ended December 31,	
	2017	2016
Profit attributable to equity holders of the Company (RMB'000)	**2,252,813**	6,366,930
Weighted average number of ordinary shares in issue (thousands)	**7,595,338**	7,595,338
Earnings per share for profit attributable to equity holders of the Company(RMB)	**0.30**	0.84

During the years ended December 31, 2017 and 2016, there were no potential dilutive ordinary shares and diluted earnings per share was equal to basic earnings per share.

17 DIVIDENDS

	For the year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.1 per share (2016: RMB0.29 per share) *(note (a))*	**759,534**	2,202,648

Note:

(a) The 2017 final dividend is proposed by the directors at a meeting held on the date of approval of these financial statements, which is not reflected as dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending December 31, 2018.

The dividend of approximately RMB2,202,648,000 (RMB0.29 per share) relating to the year ended December 31, 2016 was approved by the shareholders at a meeting held on June, 2017 and paid in September 2017.

18 EVENTS AFTER THE REPORTING PERIOD

(a) On January 22, 2018, BAIC Guangzhou Automotive Co., Ltd. ("**BAIC Guangzhou**", a wholly-owned subsidiary of the Company), BAIC Group, Daimler Greater China Ltd., Bohai Automotive System Co. Ltd., Beijing Shougang Lvjie Venture Capital Co. Ltd. and other shareholders of Beijing Electric Vehicle Co., Ltd. ("**Beijing Electric Vehicle**"), entered into the agreement on asset swap and acquisition of assets by issuance of shares with Chengdu Qianfeng Electronics Co. Ltd. ("**QianFeng**"), pursuant to which, BAIC Guangzhou agreed to dispose all of its 8.15% equity interest in Beijing Electric Vehicle to QianFeng in exchange for 62,409,505 shares to be issued to BAIC Guangzhou by QianFeng. Upon completion of this transaction, BAIC Guangzhou will hold 6.51 % equity interest in QianFeng.

(b) On February 23, 2018, the Company and Beijing Benz, a non wholly-owned subsidiary of the Company, entered into the Asset Transfer Agreement, pursuant to which the Company agreed to dispose of, and Beijing Benz agreed to purchase, certain of the Groups' assets in the Beijing Branch of the Company at a total considerations of approximately RMB5,837 million.

MANAGEMENT DISCUSSION AND ANALYSIS

According to statistics of the China Association of Automobile Manufacturers, during 2017, the sales volume of passenger vehicles in China reached 24.718 million units, representing a year-on-year increases of 1.4%, showing an obvious slowdown in sale volume growth and an overall trend of slight growth of the industry. During 2017, the passenger vehicle industry had following characteristics:

In terms of industrial policy, industry development planning and upgrade were clear; environmental protection requirements became more and more stringent; policies and regulation were further improved. The Plan for the Mid and Long-term Development of the Automobile Industry sets the overall development target of the automobile industry, in order to make constant efforts to develop China into one of the automobile powers in the world within ten years. The dual-credit policy[1] was formally published and will come into force on April 1, 2018; decrease in new energy vehicle subsides continued; automobile purchase tax discounts for small-displacement vehicles with an engine displacement of 1.6L or less were reduced. Policy change poses challenges to traditional passenger vehicle industries, but it brings about opportunities for industrial restructuring.

In terms of segmented market, SUV products saw a sales volume growth rate of 13.3%, maintaining a relatively high growth; sedans experienced a slight decrease of 2.5% in sales volume compared with 2016; MPV and CUV respectively saw more dramatic year-on-year declines of 17.1% and 20.0% in sales volume; the upgrade trend of industrial consumption was obvious.

In terms of series market, the sales volume of Chinese-branded passenger vehicles reached 10.847 million units, representing a year-on-year increase of 3.0%, and the market share of those vehicles increased to 43.9%, representing a growth of 0.7 percentage point compared with last year. Following steady improvement in product quality, as well as gradual establishment of research and development processes, standards and systems, Chinese-branded vehicles have begun to be sold at a higher price range, with continuous expansion of the product range. Meanwhile, the development trends of joint venture brands varied. Compared with last year, Korean and French brands experienced a rapid decrease in sales volume, while other foreign brands saw a certain growth in sales volume.

New energy passenger vehicles saw a strong growth trend, with the sales volume of pure electric passenger vehicles reaching 468 thousand units, representing a year-on-year growth of 82.1%; a breakthrough was made in the mileage range of major new energy passenger vehicle products.

Overview of the Group

We are a leading passenger vehicle manufacturer in China, and are one of the passenger vehicle manufacturers with the most optimized brand layout and business system in the industry. Our brands cover joint venture premium passenger vehicles, joint venture premium multi-purpose passenger vehicles, joint venture mid- to high-end passenger vehicles and proprietary brand passenger vehicles, which can maximally satisfy various customers' demands, and we are also the leader of pure electric passenger vehicle business in China.

The Company completed its H shares initial public offering and was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on December 19, 2014 (H share stock abbreviation: BAIC Motor; H share stock code: 1958); on December 5, 2017, the special resolution on proposed initial public offering and listing of A shares was approved at the 2017 second extraordinary general meeting of the Company. At present, the Group is promoting relevant work for issue of A shares.

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1 Dual-credit policy refers to the Measures for the Parallel Administration of Average Fuel Consumption and New Energy Vehicle Credits of Passenger Vehicle Enterprises, which was officially published on September 28, 2017 and will come into force on April 1, 2018

Major business operations

The Group's major business operations include research and development, manufacturing and sales and after-sale services of passenger vehicles, production of core parts and components of passenger vehicles, car financing and other related businesses. We keep developing industry chains and strengthening our brands.

Passenger vehicles

Currently, our passenger vehicle business is conducted through four business segments, namely Beijing Brand, Beijing Benz, Beijing Hyundai and Fujian Benz.

1. Beijing Brand

Beijing Brand is our proprietary brand, and the Group holds the entire interest of Beijing Brand's business. Currently, business of Beijing Brand is operated under four series, i.e. Senova, BJ, Wevan and New Energy Vehicle, which are now selling over ten models on the market, covering a full range of sedan, SUV, CUV, MPV models and new energy vehicles.

Senova

"Senova" is a mid- to high-end passenger vehicle product series under the proprietary brands of the Company and is targeted at consumers who value both vehicle performance and high-quality life. "Dedication to Performance" is the brand philosophy of Senova. It aims to create the brand attribute of "MB-tech quality, intelligent driving, metropolitan beauty and innovative technology".

BJ

"BJ" series is a pioneer brand of BAIC which is inherited from the half century long military vehicle with a strong DNA of hard style off-road vehicle. "Pure Cross-Country, Absolutely Boundless" is the brand philosophy of BJ. With the brand vision of "No.1 off-road vehicle brand in China", it aims to create the brand attribute of "pure inheritance, professional skill, military vehicle quality and hard style".

Wevan

The "Wevan" series focuses on CUV and MPV models, and is targeted at small and micro businesses and individuals. "Leading to blissful future" is the brand essence of Wevan.

New Energy Vehicle

Along with manufacturing of traditional oil powered passenger vehicles, Beijing Brand has also made efforts to promote production of new energy products and made arrangement for designing technical routes of, development and production of pure electric, hybrid electric and 48V products.

In terms of pure electric new energy vehicle, Beijing Brand has produced many pure electric new energy vehicle models improved from traditional oil-powered car models. The major vehicle models continue to be industry-leading, with a mileage range in the integrated operating condition reaching 360 km.

In terms of hybrid electric product planning, Beijing Brand plans to rapidly complete the upgrade from traditional oil-powered products to hybrid electric products through a two-step process: From the end of 2019 to the beginning of 2020, it will concurrently complete upgrade of existing vehicle models, A-Class and B-Class sedans and A-Class SUV models to 48V products; from 2020, it will develop new products in comprehensive consideration of gasoline engine, 48V hybrid electric vehicle model, HEV model and plug-in hybrid electric vehicle model.

2. *Beijing Benz*

Beijing Benz Automotive Co., Ltd. ("**Beijing Benz**") is a subsidiary of the Company. The Company holds 51.0% equity interest of Beijing Benz, while Daimler AG ("**Daimler AG**") and its wholly-owned subsidiary, Daimler Greater China Ltd. ("**Daimler Greater China**"), together hold 49.0% equity interest of Beijing Benz. Beijing Benz commenced the manufacturing and sales of passenger vehicles of Mercedes-Benz brand in 2006.

Beijing Benz currently manufactures and sells four types of Mercedes-Benz vehicles, namely the E-Class sedan, the C-Class sedan, GLC SUV and GLA SUV. In terms of wholesale sales volume in 2017, Beijing Benz is the second largest producer of joint venture premium passenger vehicles, with absolute industry-leading sales growth rate over the last two years. In the second half of 2017, Beijing Benz formally commenced construction of a production base of new energy passenger vehicles and planned to launch the first type of Mercedes-Benz pure electric vehicle products in 2019.

3. *Beijing Hyundai*

Beijing Hyundai Motor Co., Ltd. ("**Beijing Hyundai**") is a joint venture of the Company. The Company holds 50.0% equity interest of Beijing Hyundai through its subsidiary BAIC Investment Co., Ltd. ("**BAIC Investment**"), while Hyundai Motor Company ("**Hyundai Motor**") holds another 50.0% equity interest of Beijing Hyundai. Beijing Hyundai commenced the manufacturing and sales of passenger vehicles of Hyundai brand in 2002. Beijing Hyundai currently manufactures and sells over ten types of vehicles, covering a full range of major sedan models including middle class, compact and A0-Class models, as well as SUV models.

In the second half of 2017, Chongqing Factory, the fifth factory of Beijing Hyundai, was completed, thus forming a nation-wide production capacity arrangement of "Five Factories in Three Regions"[2], further improving and forming a nation-wide production and marketing system.

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2 Five Factories in Three Regions refers to three vehicle factories of Beijing Hyundai located in Shunyi District, Beijing, and Hebei Cangzhou Factory and Chongqing Factory, which were constructed by Beijing Hyundai under the national strategic guidance of "Beijing-Tianjin-Hebei coordinated development" and "Yangtze River Economic Zone development", thus forming the arrangement of Five Factories in Three Regions

4. Fujian Benz

Fujian Benz Automotive Co., Ltd. ("**Fujian Benz**") is a joint venture of the Company. The Company holds 35.0% equity interest in Fujian Benz, and establishes an act-in-concert agreement with Fujian Motor Industry Group Co. ("**FJMOTOR**"), which holds 15.0% equity interest in Fujian Benz. The consensus will be reached while making decisions regarding the operation, management and other matters of Fujian Benz, as well as the exercising of power by the directors appointed by FJMOTOR. Daimler Vans Limited (Hong Kong) holds the remaining 50.0% equity interest of Fujian Benz. Fujian Benz commenced the manufacturing and sales of multi-purpose passenger vehicles of Mercedes-Benz brand in 2010. With launch of the new-generation Mercedes-Benz V-Class model, Fujian Benz further strengthened its industry position and competitive strength in the field of high-end multi-purpose passenger vehicles in 2017, thus laying a sound foundation for subsequent development.

Core parts and components for passenger vehicles

Besides manufacturing of whole vehicles, we also produce engines, powertrain, and other core parts and components for passenger vehicles through the production bases of Beijing Brand, Beijing Benz and Beijing Hyundai.

In respect of Beijing Brand, we manufacture engines, transmissions and other core automobile parts and components through entities including BAIC Motor Powertrain Co., Ltd. ("**Powertrain**") and Beijing Beinei Engine Parts and Components Co., Ltd., mainly for use in our whole vehicles as well as for sale to other automobile manufacturers. By digesting and assimilating Saab technology and through the combination of cooperative and independent development, we have broken through many technological difficulties, successively completed development of many types of engine and transmission products, and realized mass production of such products, which has filled the gaps in certain fields in China. Such products have been widely used for passenger vehicle series such as Senova and BJ, among others.

Beijing Benz commenced to manufacture engines in 2013 and owns the first engine manufacturing base under the Mercedes-Benz brand outside Germany. Its specific product offerings include M270, M274 and M276 engines. It will successively manufacture various types of engines. With commencement of construction of the new-energy power battery factory in the second half of 2017, Beijing Benz will produce various types of new-energy powered battery products in the future.

Beijing Hyundai commenced to manufacture engines in 2004, and has five engine factories. Its specific product offerings cover four major series namely Kappa, Gamma, NU and ThetaII. The engines produced are industry-leading in terms of technology and power, etc. The products are mainly for use in Hyundai-branded passenger vehicles manufactured by Beijing Hyundai.

Car financing

We conduct car financing and automobile aftermarket-related businesses of Beijing Brand, Mercedes-Benz brand and Hyundai brand through associates including BAIC Group Finance Co., Ltd. ("**BAIC Finance**"), Beijing Hyundai Auto Finance Company Limited ("**BHAF**") and Mercedes-Benz Leasing Co. Ltd ("**MBLC**").

In respect of Beijing Brand's car financing business, we have conducted group strategic cooperation with various commercial banks, automobile financial companies and lease finance companies, offering clients great variety of financial products covering all car models now selling on the market, lengthy interest-free period and favorable discount loans, and providing products of 24- and 36-installment interest-free fixed-amount loan products. Meanwhile, we have launched finance lease products including "Baopai Loan", so as to provide customers with multiple options.

MBLC is an associate of the Company. The Company and Daimler Greater China each holds 35.0% and 65.0% equity interest of MBLC. During 2017, MBLC's sale-leaseback volume increased up to 185%, which clearly further stimulated the sales of Beijing Benz's new models.

BHAF is an associate of the Company. The Company holds 33.0% and 14.0% equity interest of BHAF through its subsidiary, BAIC Investment, and its joint venture, Beijing Hyundai, respectively, while Hyundai Capital Services and Hyundai Motor hold the remaining equity interest. During 2017, BHAF ranked the seventh in terms of the new retail loan contract volume, showing the stable progress of business diversification.

Other related businesses

During 2017, we conducted research and development of high-end passenger vehicles, light materials and used car businesses through relevant joint ventures.

Production and sales of various brands in 2017

In 2017, facing complex industrial competition, four business segments of the Group sold a total of 1.466 million units of vehicles, representing a year-on-year decrease of 24.0%. Performances of the major four business segments varied: Beijing Brand and Beijing Hyundai faced challenges, with a decline in sales performance; Beijing Benz and Fujian Benz maintained a good development trend, and in particular, Beijing Benz maintained the rapid growth trend.

1. Beijing Brand

In 2017, affected by intensified market competition, internal product adjustment and other factors, Beijing Brand stood up to multiple tests and was under performance pressure: in the year, 236 thousand units of passenger vehicles were sold, representing a year-on-year decrease of 48.4%; among which, the sales volume of Senova series was 86 thousand units, representing a year-on-year decrease of 57.2%; the sales volume of BJ series was 40 thousand units, representing a year-on-year increase of 45.3%; the sales volume of Wevan series was 86 thousand units, representing a year-on-year decrease of 52.0%; the sales volume of new energy vehicles was 23 thousand, representing a year-on-year decrease of 52.0%.

Although Beijing Brand was under sales volume pressure, throughout the whole year of 2017, there were many highlights of its development:

On one hand, off-road vehicle products outstood. Driven by high sales of major vehicle models including BJ40 and BJ80, the sales volume of off-road vehicle products increased by 45.3% on a year-on-year basis. With obvious differentiated competitive advantages, Beijing Brand became the No.1 off-road vehicle brand in China; on the other hand, Senova 2.0 products were a success. As the first type of products in the "Product 2.0" era, the new Senova D50 provided consumers with more-than-expected value experience, in terms of styling, interior, in-car networking experience, etc., so there was a good market response;

meanwhile, major new energy products, with the mileage range of 360 km in the integrated operating condition, continued to be industry-leading; in addition, the Company entered into strategic cooperation agreements with Xiaomi, Baidu, IFLYTEK and Yanfeng respectively, so as to comprehensively promote the implementation of the "NOVA-PLS" intelligent strategy and enhance the product strength, thus laying a solid foundation for subsequent development of Beijing Brand.

In 2018, Beijing Brand will successively launch series of products, including new D70 middle-class sedan, facelifted vehicle models of X55 SUV and BJ40 off-road vehicles, so as to provide consumers with better products.

2. *Beijing Benz*

In 2017, Beijing Benz continued to maintain a rapid growth, with the vehicle sales volume of 423 thousand units, representing a year-on-year increase of 33.3%, sustaining the front rank in terms of growth rate among joint venture premium passenger vehicle brands. It continued to lead the rapid growth of premium vehicle market in China, with the total sales volume of Mercedes-Benz products in China accounting for over 70%.

With increase in the sales volume, Beijing Benz made efforts to improve the product strength and promote quality improvement. The mid-term facelifted vehicle model of GLA SUV, which was launched in June 2017, ranked first in terms of quality of new vehicles in J.D.Power[3] Compact Premium SUV Ratings in 2017.

In 2017, Beijing Benz continued to promote construction of the Engine Factory 2 project and the MFA vehicle factory. As a result, the vehicle and engine production capacity was further expanded. Meanwhile, Beijing Benz will formally promote preparation for production of new energy vehicle models and start construction of electric vehicle and power battery factories. According to the established plans, Beijing Benz will become Daimler AG's important production base of pure electric vehicles in China. Its strategic arrangement will be further improved.

In the next three years, Beijing Benz will introduce various types of Mercedes-Benz products including pure electric vehicles, so as to satisfy differentiated demands of consumers. The product system, which becomes richer, will undoubtedly further enhance the competitive strength of Beijing Benz.

3. *Beijing Hyundai*

In 2017, affected by non-operating factors to a larger extent, Beijing Hyundai sold 785 thousand units of passenger vehicles throughout the year and had the market share of 3.5%. As the sales volume of Beijing Hyundai had continuously outperformed the market quarter on quarter through active measures since the third quarter and bottomed out, Beijing Hyundai regained its status as a mainstream vehicle enterprise.

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3 J.D.Power is a brand under McGraw Hill Financial in the United States, providing insight and solutions on customer satisfaction and improvement on performance.

In 2017, according to the automobile product satisfaction survey conducted by J.D.Power, Beijing Hyundai ranked first in its industry segment in terms of SSI, CSI and IQS[4] simultaneously, showing its excellent product quality; meanwhile, Beijing Hyundai launched the new after-sales service brand of "Enjoying Considerate Services (享你未想)" and the new brand philosophy of "Quality and Intelligent (質現代智未來)", in order to adapt to industry development and consumption upgrade; in addition, through the release and spread of hydrogen powertrain, Smart Stream powertrain[5], plug-in hybrid electric vehicle and other new technologies, Beijing Hyundai is also committed to improving the brand influence and building a high-end brand image.

In terms of product, in 2017, Beijing Hyundai launched facelifted vehicle models of ix25 and Sonata 9, new Verna, the new-generation ix35, new Elantra and other new vehicle models, so as to improve the market competitiveness of products; for the purpose of adapting to the development trend of new energy vehicles, Beijing Hyundai launched new Elantra EV, the first pure electric vehicle model in domestic joint venture enterprises, which attracted extensive attention in the market. Beijing Hyundai planned to launch a high-performance SUV (ENCINO), a new large SUV and a sedan product in 2018. Meanwhile, it will also launch a mid-term facelifted vehicle model of new Tucson.

In response to national call on for developing new energy vehicles and the need for market competition, Beijing Hyundai actively promoted a new energy vehicle development strategy. During the "13th Five-Year Plan" period, Beijing Hyundai will successively launch five types of new energy products, including three pure electric vehicle models and two plug-in hybrid electric vehicle models. By the end of the "13th Five-Year Plan" period, the sales volume of new energy vehicles will reach 10% of the total sales volume of Beijing Hyundai.

4. Fujian Benz

Fujian Benz maintained a good development trend and undergone a rapid development, with the sales volume of 22 thousand units in 2017, representing a year-on-year increase of 79%. The sales volumes of Mercedes-Benz V-Class, New Vito and Sprinter grow at a rate much larger than the growth rates of their respective market segments.

Production facilities

We have specialized production facilities to manufacture and assemble products. All of our manufacturing bases are located in China, and are equipped with advanced production facilities. All of our production facilities are equipped with flexible production lines, which allow each production line to produce different model of passenger vehicles. We believe that this not only allows us to flexibly change production plans and respond quickly to changes in market demand, but also reduces our capital expenditures and operating costs.

In September 2017, the Chongqing Factory of Beijing Hyundai was formally completed and commenced production, thus forming an operation arrangement of "Five Factories in Three Regions", indicating that the production and marketing system of Beijing Hyundai comprehensively covered the market of Southwest China.

4 SSI refers to the index of satisfaction on the vehicle sales in China; CSI refers to the index of satisfaction on after-sale services; IQS refers to research of quality of new vehicles in China

5 Smart Stream refers to the main system under the new-generation powertrain strategy of the Hyundai brand with an aim to integrate various high-end technologies to help the Hyundai brand realize the long-term global emission target

In the second half of 2017, Beijing Benz started construction of a new energy passenger vehicle project and a power battery project, laying a foundation for subsequent development in the new energy field.

In February 2018, the Group transferred the production base of Beijing Branch and other assets to Beijing Benz, so as to optimize capacity allocation of the Group, enable Beijing Benz to rapidly expand its capacity and make greater efforts for arrangement in the new energy field; immediately thereafter, the Company announced that the Company and Daimler AG would jointly invest over RMB11.9 billion to construct a new premium vehicle production base of the Benz brand based on the original production base of Beijing Branch.

Sales network

The Group always attaches great importance to the interests of customers, strives to optimize its product-service system, and is devoted to enabling product distributors and customers to receive timely, efficient, accurate and high quality service guarantee. All brands have independent marketing channels. During 2017, Beijing Brand and Beijing Hyundai strengthened efforts in widening penetration of automobile sales network and enhancing construction of satellite stores, so as to enhance its sales strength; Beijing Benz was continuously committed to improving the profitability of distributors and main engine plants while expanding the sales network.

Research and development

The Group believes that our research and development capability is critical to the future development. During 2017, our various brands all vigorously boosted construction of research and development system and capacity.

Beijing Brand continued to make greater investment in research and development and achieved excellent results in terms of establishment of a research and development system and new vehicle model research and development. New Senova D50, the first second-generation vehicle model produced on the new M-trix2.0 platform, fully reflected the research and development progress of Beijing Brand in terms of styling, perceived quality, intelligentization, networking, electrification, lightweight, etc.; meanwhile, it has developed strategic cooperation relationships with Xiaomi, Baidu, IFLYTEK, Yanfeng and other intelligent technology companies, which comprehensively promoted implementation of the "NOVA-PLS" intelligent strategy.

Currently, Beijing Benz has the largest research and development center among all joint venture enterprises of Daimler AG, within which there are 7 advanced laboratories testing climate corrosion, vehicle emissions, engines and vibration noise, as well as trial production workshops and test runway, which provides major technical support for research and development and manufacturing of Mercedes-Benz's domestic models.

In 2017, Beijing Hyundai completed development of the civilian and taxi models of Elantra electric vehicle. Meanwhile, it promoted development of 13 types of imported vehicle models, of which 6 vehicle models including the new-generation ix35 and new Verna were launched in the market and mass-produced. Beijing Hyundai independently developed an in-car intelligent network system and installed such system in the new-generation ix35 and new Verna, which was recognized by the market and consumers. The average fuel consumption of the enterprise satisfied regulatory requirements of the government, through mass production and launch of new energy products in advance, revalidation of the fuel consumption of new Tucson/Santafe, expanded installation of ISG/ downsizing of engines for new Mistra/new ix25 and other measures.

Joint venture cooperation and industrial chain extension

During 2017, the Group made many great accomplishments in capital operation and industry cooperation, further broadened the scope of cooperation, extended the industrial chain, expanded the business market and enhanced its competitiveness.

1. ***Capital increase to Beijing Electric Vehicle***

   On July 20, 2017, the Company and Beijing Electric Vehicle Co., Ltd. ("**Beijing Electric Vehicle**"), a non wholly-owned subsidiary of Beijing Automotive Group Co., Ltd. ("**BAIC Group**"), entered into a capital increase agreement, pursuant to which, the Company shall subscribe for 223.6 million shares newly issued by Beijing Electric Vehicle at a total price of RMB1,185.08 million paid in the form of assets and cash and the Company will hold 8.15% of Beijing Electric Vehicle's total equity interests upon subscription.

   Such capital contribution deepens cooperation and collaboration by the Company in the new energy field, further expands the strategic industrial arrangement of the Company, realizes sharing of development achievements in new energy vehicles and maximizes the benefits of shareholders.

2. ***Capital increase to MBLC***

   The Company and Daimler Greater China entered into the capital increase agreement on June 23, 2017 and November 10, 2017, respectively, pursuant to which, both parties shall jointly contribute an aggregate amount of RMB900.0 million to MBLC in proportion to their respective shareholding in MBLC. The Company shall contribute RMB315.0 million, and it will hold 35.0% equity interest in MBLC upon completion of capital increase.

   Driven by, amongst others, successful development of automobiles under the brand of Mercedes-Benz in the PRC, MBLC's business has been continuously and rapidly increasing in the recent years. It is expected that MBLC's business size will further expand in the next few years following the rapid development of the PRC's automobile leasing and automobile financial market. It is expected that the contribution will help expand the sales volume of new vehicles sold by Beijing Benz, further promote development of the Company in the automobile finance lease market of China, increase contribution of the finance lease business to the overall production value of the Company, thus generating greater investment returns for the Company and shareholders.

3. ***Framework Agreement in relation to Further Investment in Beijing Benz to introduce Pure Electric Vehicle Products with Daimler AG***

   On July 5, 2017, the Company and Daimler AG entered into the Framework Agreement in relation to Greater Investment in Beijing Benz to Introduce of Pure Electric Vehicle Products, pursuant to which, the Company, Daimler AG and Daimler Greater China proposed to jointly increase the investment in Beijing Benz by approximately RMB5 billion, for introducing pure electric vehicles from Daimler AG to Beijing Benz and setting up the production and research and development capacity of locally adopted batteries for new energy vehicles.

   The cooperation further deepens strategic cooperation between the Company and Daimler AG and complement both of their strengths, thereby laying a strong foundation for Beijing Benz to develop into an important production base for pure electric vehicles in China in the future.

4. Increase in the scale of production of new energy passenger vehicles of Beijing Benz

On February 23, 2018, the Company and Daimler AG announced an increase in the scale of production of Mercedes-Benz passenger vehicles in China, so as to satisfy future demands of the Chinese market. The Company and Daimler AG will jointly invest over RMB11.9 billion to construct a new premium vehicle production base of Beijing Benz. The factory will produce many types of Mercedes-Benz products including new-energy electric vehicle models in China and have a complete premium vehicle manufacturing system, thus further improving the overall production capacity of Beijing Benz.

5. Strategic Cooperation Framework Agreement with Baidu

The Company and Beijing Baidu Netcom Science and Technology Company Limited ("**Baidu**") entered into the Strategic Cooperation Framework Agreement on January 7, 2017 and another Strategic Cooperation Framework Agreement on October 16, 2017. Both parties will carry out in-depth cooperation in self-driving, information product, cloud service, cloud-based information security of vehicles and other fields, with an aim to have the artificial intelligence-based L4 Level intelligent driving technology met the standard for mass production and application by 2021.

Leveraging the complementary advantages, the parties will jointly build a benign ecosystem nurtured with sustainable innovation and impel innovation on self-driving technologies, so as to promote the intelligence-oriented vehicle upgrade. The cooperation is in the interests of the Company and its shareholders as a whole.

6. Strategic Cooperation Framework Agreement with IFLYTEK

On November 8, 2017, the Company and IFLYTEK Co., Ltd. ("**IFLYTEK**") entered into the Strategic Cooperation Framework Agreement. The parties would enter into a strategic cooperation partnership and will carry out in-depth cooperation in fields including intelligent human-computer interaction, in-vehicle intelligence and artificial intelligence technology, big data analysis, intelligent vehicle networking platform and marketing resources.

Conclusion of the framework agreement helps realize cooperation between both parties in the area of intelligence and is conducive to the utilization by the Company of the intelligent voice technology, automobile intelligent terminal and the intelligent vehicle networking platform for providing a safer, more natural and more convenient method for safe driving.

7. Strategic Cooperation Framework Agreement with Yanfeng

On October 30, 2017, the Company and Yanfeng Automotive Trim Systems Co, Ltd. ("**Yanfeng**") entered into the Strategic Cooperation Framework Agreement. Both parties would initiate cooperation in the fields of vehicle inner space and the interior and exterior decoration in relation to self-driving and would jointly develop intelligent interior and exterior decoration projects for future intelligent automobiles. The Company would initiate in-depth cooperation with various segments of the business division under Yanfeng including interior decoration, exterior decoration, electronics, security and seats in terms of product research and development as well as mass production. Joint efforts will be made to provide a turnkey solution for automotive intelligent cockpit and lightweight technology application for interior and exterior decoration, and to further provide commercially viable product projects of a new generation for automobile intelligent space and embody a high level of integration between product and technology with the aim of improving driving and riding experience.

PERFORMANCE ANALYSIS AND DISCUSSION

Revenue

The Group's main business operations are the research and development, manufacturing, sales and after-sale services of passenger vehicles. The above business has brought sustained and stable revenue to the Group. In 2017, the revenue of the Group increased to RMB134,158.5 million from RMB116,199.0 million for the year ended December 31, 2016 ("**2016**"), representing a year-on-year increase of 15.5%, mainly attributable to the increase in revenue from Beijing Benz.

Revenue associated with Beijing Benz increased to RMB116,772.9 million in 2017 from RMB85,312.0 million in 2016, representing a year-on-year increase of 36.9%, mainly attributable to (i) a year-on-year increase of 33.3% in sales volume of Beijing Benz; and (ii) the further increase in sales volume of models with relatively higher selling prices.

Revenue associated with Beijing Brand decreased to RMB17,385.6 million in 2017 from RMB30,887.0 million in 2016, representing a year-on-year decrease of 43.7%, mainly attributable to (i) a year-on-year decrease of 48.4% in sales volume of Beijing Brand; (ii) the additional promotion offered to the market in order to cope with impacts such as the slowdown in growth of domestic passenger vehicle industry and the adjustment of preferential policy for vehicle purchase tax; and (iii) the increase in the proportion of the sales volume of higher priced E+S (new energy + SUV vehicle model) product, partially offsetting impacts of decrease in sales volume.

Cost of sale

The Group's cost of sales increased to RMB98,659.3 million in 2017 from RMB89,967.3 million in 2016, representing a year-on-year increase of 9.7%, mainly attributable to the increase in costs of Beijing Benz.

The cost of sales associated with Beijing Benz increased to RMB78,594.0 million in 2017 from RMB59,937.4 million in 2016, representing a year-on-year increase of 31.1%, mainly attributable to (i) a year-on-year increase in sales volume of Beijing Benz; and (ii) offsetting by the impact of the increase in product cost due to increase in the sales volume of higher priced models.

The cost of sales associated with Beijing Brand decreased to RMB20,065.3 million in 2017 from RMB30,029.9 million in 2016, representing a year-on-year decrease of 33.2%, mainly attributable to (i) a year-on-year decrease in sales volume of Beijing Brand; and (ii) the increase in product cost due to the increased proportion of sales volume of E+S products.

Gross profit

Based on the aforesaid reasons, the Group's gross profit increased to RMB35,499.3 million in 2017 from RMB26,231.7 million in 2016, representing a year-on-year increase of 35.3%, mainly attributable to the increase in the gross profit of Beijing Benz.

Gross profit of Beijing Benz increased to RMB38,179.0 million in 2017 from RMB25,374.6 million in 2016, representing a year-on-year increase of 50.5%. Gross profit margin increased to 32.7% in 2017 from 29.7% in 2016, mainly attributable to (i) a year-on-year increase of 33.3% in sales volume of Beijing Benz; and (ii) the increase in average gross profit due to the increase in sales volume of models with relatively higher gross profit.

Gross profit of Beijing Brand decreased to gross loss of RMB2,679.7 million in 2017 from gross gain of RMB857.1 million in 2016. Gross profit margin decreased to -15.4% in 2017 from 2.8% in 2016, mainly attributable to (i) a year-on-year decrease of 48.4% in sales volume of Beijing Brand; and (ii) the additional promotion offered to the market in order to cope with impacts such as the slowdown in growth of domestic passenger vehicle industry and the adjustment of preferential policy for vehicle purchase tax.

Selling and distribution expenses

Selling and distribution expenses of the Group increased to RMB11,919.5 million in 2017 from RMB10,603.1 million in 2016, representing a year-on-year increase of 12.4%, mainly attributable to the increase in expenses including service, transportation and warehousing costs resulting from the year-on-year increase in sales volume of Beijing Benz.

The percentage of the Group's selling and distribution expenses to its revenue decreased to 8.9% in 2017 from 9.1% in 2016. This was mainly attributable to the Group's implementation of stricter budget system to control the selling and distribution expenses and to lower growth rates of selling and distribution expenses compared to the growth rates of revenue, which resulted in a decrease in the percentage of selling and distribution expenses to revenue.

Administrative expenses

Administrative expenses of the Group increased to RMB5,007.0 million in 2017 from RMB4,297.4 million in 2016, representing a year-on-year increase of 16.5%, which is mainly attributable to the increase in tax, levies and other expenses incurred by the year-on-year increase in sales volume of Beijing Benz. Percentage of the Group's administrative expenses to its revenue was 3.7%, remaining at the same level as in 2016.

Foreign exchange losses[6]

The Group (mainly the businesses of Beijing Benz) recorded a foreign exchange loss which increased from RMB85.6 million in 2016 to RMB1,366.0 million in 2017. The increase in foreign exchange loss was mainly attributable to losses incurred by euro-denominated payments as a result of the decline in the exchange rate of Renminbi against Euro.

The Group used foreign currencies (primarily Euro) to pay for part of its imported parts and components, the Group also had borrowings denominated in foreign currencies. Foreign exchange rate fluctuations may affect the Group's operating results to certain extent.

The Group has a well-developed foreign exchange management strategy that continuously and orderly controls foreign exchange rate risks of foreign exchange exposure. At present, the Group mainly uses foreign exchange forward contracts as our hedging tool.

Financial costs

The Group's net financial costs decreased to RMB447.9 million in 2017 from RMB467.9 million in 2016, representing a year-on-year decrease of 4.3%. The percentage of the Group's net financial costs to its revenue decreased to 0.3% in 2017 from 0.4% in 2016. This was mainly attributable to (i) the decrease in net financial costs, incurred by larger growth rates of finance income compared to the growth rates of financial costs; and (ii) the decrease in percentage of the net financial costs to its revenue, resulted from the decrease in net financial costs and the increase in revenue.

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6 Foreign exchange losses include foreign exchange forward contracts where fair value changes are included in loss/gain

Share of profits of joint ventures and associates

The Group recorded a total investment loss of RMB33.8 million in 2017, representing a year-on-year decrease of RMB4,250.5 million, mainly attributable to the decrease in profit of Beijing Hyundai and related supporting enterprises due to the intensified competition in domestic passenger vehicle industry, the overall market downturn of Korean branded vehicles and other impacts.

Income tax expenses

Income tax expenses of the Group increased to RMB6,038.1 million in 2017 from RMB3,732.9 million in 2016, representing a year-on-year increase of 61.8%, mainly attributable to the increase in taxable income of Beijing Benz. Effective tax rate increased to 35.4% in 2017 from 24.4% in 2016.

The rates of enterprise income tax applicable to the Company and its subsidiaries in 2016 and 2017 were: 15.0% for new and high technology enterprises, 16.5% for Hong Kong profits tax, 32.8% for German enterprise income tax and the statutory 25.0% for PRC enterprises, among which the statutory 25.0% enterprise income tax rate for PRC enterprises was applicable to Beijing Benz in 2016 and 2017.

Net profit

Based on the aforesaid reasons, the Group's net profit decreased to RMB10,998.3 million in 2017 from RMB11,536.2 million in 2016, representing a year-on-year decrease of 4.7%.

Net profit attributable to equity holders of the Company

The Group recorded a decrease in the net profit attributable to equity holders of the Company to RMB2,252.8 million in 2017 from RMB6,366.9 million in 2016, representing a year-on-year decrease of 64.6%. Basic earnings per share decreased to RMB0.30 in 2017 from RMB0.84 in 2016, representing a year-on-year decrease of 64.3%.

Financial resources and capital structure

As of December 31, 2017 (the "**end of 2017**"), the Group had cash and cash equivalents of RMB36,824.9 million, notes receivable of RMB8,261.1 million, notes payable of RMB9,406.4 million, outstanding borrowings of RMB31,645.0 million, unused bank credit lines of RMB23,445.3 million, and commitments for capital expenditure of RMB4,690.9 million. The above outstanding borrowings included RMB1,954.7 million equivalents of Euro borrowings at the end of 2017.

As of December 31, 2016 (the **"end of 2016**"), the Group had cash and cash equivalents of RMB36,063.9 million, notes receivable of RMB14,640.5 million, notes payable of RMB9,916.9 million, outstanding borrowings of RMB35,378.7 million, and unused bank credit lines of RMB22,491.0 million.

The Group usually satisfied its daily working capital requirements through self-owned cash and borrowings. At the end of 2017, the outstanding borrowings of the Group included short-term borrowings and long-term borrowings of RMB18,478.1 million and RMB13,167.0 million, respectively. The Group will promptly repay the aforesaid borrowings at maturity.

As at the end of 2017, none of the Group's debt covenants in effect includes any agreement on the obligations to be performed by controlling shareholders. In the meantime, the Group has also strictly followed all the terms and conditions in its debt covenants, and no default has taken place.

Total assets

Total assets of the Group decreased to RMB167,403.0 million at the end of 2017 from RMB168,900.4 million at the end of 2016, representing a year-on-year decrease of 0.9%, mainly attributable to (i) the decrease in receivables arising from decrease in sales volume of Beijing Brand; and (ii) the increase in inventories and receivables arising from the growth of production and sales scale of Beijing Benz, partially offsetting the effect of decrease in receivables of Beijing Brand.

Total liabilities

Total liabilities of the Group decreased to RMB107,762.1 million at the end of 2017 from RMB110,867.1 million at the end of 2016, representing a year-on-year decrease of 2.8%. This was mainly attributable to (i) the decrease in total borrowings; (ii) the decrease in payables as a result of the decrease in production of Beijing Brand; and (iii) the increase in payables arising from the growth of production of Beijing Benz, partially offsetting the effect of decrease in payables of Beijing Brand.

Total equity

Total equity of the Group increased to RMB59,640.9 million at the end of 2017 from RMB58,033.3 million at the end of 2016, representing a year-on-year increase of 2.8%, mainly attributable to (i) the increase in net profits of Beijing Benz; and (ii) dividend distribution declared by the Company and Beijing Benz, partially offsetting the effect.

Net gearing ratio

The Group's net gearing ratio ((total borrowings less cash and cash equivalents)/(total equity plus the total borrowings less cash and cash equivalents)) decreased to -9.5% at the end of 2017 from -1.2% at the end of 2016, representing a year-on-year decrease of 8.3 percentage points, mainly attributable to (i) the increase in cash and cash equivalents; and (ii) the decrease in total borrowings.

Significant investments

Total capital expenditures of the Group increased to RMB8,739.5 million in 2017 from RMB6,075.7 million in 2016, representing a year-on-year increase of 43.8%, of which capital expenditures of Beijing Benz increased to RMB5,604.4 million in 2017 from RMB4,172.3 million in 2016, and capital expenditures of Beijing Brand increased to RMB3,135.0 million in 2017 from RMB1,903.3 million in 2016.

Total research and development expenses of the Group decreased to RMB2,788.3 million in 2017 from RMB2,800.2 million in 2016, representing a year-on-year decrease of 0.4%, the majority of which were incurred by the Group for its product research and development activities expenses. Based on applicable accounting standards and the Group's accounting policy, most expenses of the aforesaid research and development complied with capitalization conditions and had been capitalized accordingly

Material acquisitions and disposals

On June 23, 2017, the Company and Daimler Greater China entered into a capital increase agreement, pursuant to which both parties would increase capital to MBLC in proportion to their respective shareholding. Upon completion of the capital increase, the Company continues to hold 35.0% equity interest of MBLC.

On July 20, 2017, the Company entered into a capital increase agreement with BJEV for the subscription of additional shares issued by BJEV. Upon completion of the capital increase, the Company holds 8.15% of the equity interests.

On November 10, 2017, the Company and Daimler Greater China entered into a capital increase agreement, pursuant to which both parties would increase capital to MBLC in proportion to their respective shareholding. Upon completion of the capital increase, the Company continues to hold 35.0% equity interest of MBLC.

On December 29, 2017, BAIC Investment and BAIC Finance entered into a capital increase agreement, pursuant to which both parties would increase capital to BAIC Finance in proportion to their respective shareholding. Upon completion of the capital increase, the Company continues to hold 20.0% equity interest of BAIC Finance.

For detailed information on the above co-operation, please refer to the Company's relevant announcements dated June 23, 2017, July 20, 2017, November 10, 2017 and December 29, 2017, respectively.

Pledge of assets

At the end of 2017, the Group had pledged notes receivable of RMB5,286.3 million.

Contingent liabilities

The Group had no material contingent liabilities at the end of 2017.

Employee and remuneration policies

The Group's staff decreased from 25,159 at the end of 2016 to 22,844 at the end of 2017. The staff costs incurred by the Group increased from RMB4,825.8 million at the end of 2016 to RMB5,232.2 million at the end of 2017, representing a year-on-year increase of 8.4%, mainly due to (i) the increase in average labor cost; (ii) the longer labor hours as a result of the increase in production; and (iii) the increase in the annual average wage in the society, resulting in the corresponding increase in the social pooling costs paid by the Group for employees.

Through integrating human resources strategy on the basis of job classification, the Group has established a performance and competence based remuneration system, and will link the annual operating objectives with the performance appraisal of staff through a performance evaluation system, providing effective ensurance in the Group's recruiting, retaining and motivating talents, as well as the pursuit of the Group's human resources strategy.

In addition, the Group has established a pension system to provide the qualified and voluntary employees with the supplementary pension plan with certain guarantee on retirement income.

Provision of loans

In 2017, the Group did not provide any loans to other entities.

External financial assistance or guarantees

In 2017, the Group did not provide any financial assistance or guarantees to external parties.

Risk factors

1. Risks relating to macro-economic volatility

Macro-economic performance will have significant impact on consumer demand for automobiles, and therefore will affect the Group's operating performance. According to the National Bureau of Statistics, PRC's GDP growth rate was 6.9% in 2017, increasing 0.2 percentage point on year-on-year basis compared to 6.7% in 2016. According to forecast in "Blue Book of Economy" published by Chinese Academy of Social Sciences (CASS) in 2018, the growth rate is expected to be 6.7% in 2018, slightly lower than the growth rate in 2017. If PRC's economy growth rate continues to slow down, consumption power of residents will be affected, resulting in the lower demand for the Group's products from customers, thus adversely affects the Group's financial position, operating results and prospects. The Group will continue to pay attention to the macro-economic situations in China, and introduce responsive measures in due course to deal with the volatility in the economic environment.

2. Risks relating to the intensified market competition

The highly competitive industry in which the Group exists is full of intense market competition. According to the statistics of the China Association of Automobile Manufactures, the sales volume of automobiles in PRC in 2017 amounted to 28.8789 million units, representing a year-on-year increase of 3.04%, while the sales volume in 2016 amounted to 28.0282 million units, representing a year-on-year increase of 13.65%. Enterprises in the industry continuously increase their market shares through expanding production capacity, enlarging investment expenditure in research and development, and industry integration, and get involved in all-rounded competition in respect of products, prices, marketing, quality and costs, which continuously intensifies the market competition. If the Group can not take appropriate measures to maintain and enhance its market position, the future operating results of the Group will be adversely affected. The Group will continue to pay attention to the market situations, and introduce measures in due course to maintain and enhance its market position.

3. Risks relating to the fluctuation of raw material prices and supply

The key raw materials used by the Group in the research and development, production and sales of automobiles include steel, aluminum, rubber, plastics and paint, etc. With the annually continuous increase in production and sales, the key materials for production annually procured by the Group from its suppliers have also grown in volume with each passing year. If there is a surge in the prices of bulk raw materials, even though part of its impact can be offset by the Group through measures such as changing allocation and raising sales, it will still adversely affect the Group's operating results.

4. ***Risks relating to emission and environmental protection policies***

Exhaust emissions of traditional vehicles are viewed as one of the primary sources of air pollution. The Chinese government is constantly raising the emission standards of traditional vehicles. In the meantime, the standards for air quality in passenger vehicles are implemented successively. The Group has taken voluntary actions to fulfill its social responsibilities and support the implementation of the regulations in relation to emission and air quality in vehicles. However, the increased raw material costs and development expenditures will also affect the Group's operating results.

5. ***Risks relating to revision of purchase tax relief policy for passenger vehicles***

In December 2016, the Ministry of Finance revised the purchase tax relief policy for passenger vehicles, pursuant to which, the rate of purchase tax for passenger vehicles with displacement of 1.6L and below changes from 5% to 7.5% effective from January 2017, and recovering back to the statutory tax rate of 10%, effective from January 2018. The policy will impact the sales of passenger vehicles with low displacement. Although the Group will properly adjust its sales policy in response to this policy change, the Group's sales might be affected, which, in turn, will cast a negative light on the operating results within a certain period of time after the policy adjustment.

6. ***Risks relating to fluctuation of subsidy policy for new energy vehicles***

In February 2018, four ministries, including the Ministry of Finance and Ministry of Industry and Information Technology, jointly promulgated a new subsidy policy for new energy vehicles, which indicated local subsidy funds for purchasing new energy vehicles will be gradually used to support charging infrastructure construction and operation, new energy vehicles usage and operation, etc. since 2018. Such changes of subsidy policy for new energy vehicles may affect the Group's sales of new energy vehicles, and thus adversely affect the operating results within a certain period after the policy adjustment. The Group will focus on minimizing such negative impact by constantly strengthening the research and development capability of new energy vehicles and continuing to implement measures on strict procurement and cost saving.

OUTLOOK OF 2018

Prospect for the development of passenger vehicle industry in 2018

According to the prediction of the State Information Center: In 2018, high-quality development remains the basic requirement and main keynote of overall economic work; it is expected that the economy will continue to see steady growth and the growth rate will decrease to 6.5%. In terms of the automobile industry, cancellation of the purchase tax discounts will have a certain negative impact on the market, and the role of clamping down on overloading in driving the market growth will be weakened. It is expected that in 2018, the passenger vehicle sales volume in the market will be 25.40 million units (including MPV), and the year-on-year growth rate will decrease to 2.8%. The Chinese automobile market will show a low-growth trend.

It is expected that, in 2018, demand of the Chinese passenger vehicle market will mainly be affected by three factors, namely the law of development, the macro-economic situation, and the policies for automobile industry and casual factors. The law of development determines the long-term potential growth of the passenger vehicle market; the macro-economic situation will lead to fluctuations of rates of growth in demand for passenger vehicles based on the long-term potential growth; the policies for automobile industry and casual factors have more influences on short-term automobile markets and stimulate or restrain purchase demand for passenger vehicles within a certain period of time.

1. Industrial policy transformation and adjustment entering into the critical period

Since January 1, 2018, the purchase tax discounts for small-displacement vehicles have been totally cancelled. Thereafter, the small-displacement vehicles will be subject to a 10% regular tax. As a replacement, the dual-credit scheme came into force and a new energy vehicle subsidy policy was introduced. There is obvious policy adjustment. New energy application in the passenger vehicle industry becomes an irresistible development trend. New energy industry policies will become key factors affecting the development of the passenger vehicle industry.

2. Continued growth of Chinese brands

It is expected that in 2018, the supply of products under Chinese brands will remain higher than the supply of products under joint venture brands, and products supplied under Chinese brands will be mainly SUV which are more popular. Meanwhile, due to implementation of the second-child policy, emerging families with two children prefer 7-seat MPV, while the expanded families prefer 7-seat large SUV. The State Information Center predicted that in 2018, the sales volume of passenger vehicles under Chinese brands will be approximately 11.12 million units, representing a year-on-year growth of approximately 2.6%.

3. Stronger demand for premium vehicle products

It is expected that, in 2018, there will be more opportunities than challenges in the premium vehicle market. The market vitality will be much stronger than the vitality of the overall passenger vehicle market, and the market will see a double-digit growth for the whole year. Although the economy still experiences a downturn in 2018, which provides less support for the premium vehicle market, greater efforts are made to launch new products, and in particular, the SUV product market has a great development potential; in terms of structure, the growth of SUV will remain higher than sedan, and the growth of vehicles of Class B and above will be higher than the growth of vehicles of lower classes.

4. Prospect of new energy products remains positive

It is expected that, in 2018, the following four aspects will promote continued rapid growth in the new energy market: (1) upon implementation of the dual-credit scheme, the new energy vehicle industry will be driven by both policies and markets instead of being driven by policies only; (2) the organization user market will recover in 2018; (3) there is no dramatic change in demands in cities with purchase restriction; and (4) the growth in demands of individual users will remain stable in cities without purchase restriction. However, the growth rate of the market will decrease to some extent due to national subsidy requirements becoming more stringent in advance, subsidy reduction, the weakened role of product supply in stimulation and other factors.

5. Formation of intellectualization and internetization strategies

At present, “Artificial Intelligence”, “Internet of Things”, etc., has already become national strategies. It is expected that in 2018, intelligent connected vehicles will usher in a rapid development era. The social attention, capital investment and technical innovation remain at a high level. Industry chain development changes rapidly. New application and business models of intelligent connected vehicles emerge in large numbers. Traditional automobile enterprises and new rising enterprises all make efforts to develop intelligent connected vehicles. As a result, new brands, products and technologies will be continuously launched.

The Group’s business strategies in 2018

Based on evaluation of the current trend of industrial development, the Company puts forward the annual operating policy of “accelerating product upgrade, carrying out improvement and eliminating bad practices; adhering to transformation development and gathering growth momentum”. Specifically, the Company will:

Accelerating product upgrade

Focus on customers, adhere to product roadmaps, comprehensively accelerate application of electrification and intelligent networking technologies, so as to realize product upgrade.

Carrying out improvement and eliminating bad practices

Focus on development of “product strength, marketing strength and brand strength” and make efforts to make a breakthrough in core competitiveness; meanwhile, in strategic adjustment, integrate resources, eliminate bad practices, optimize processes and efficiency, so as to improve the soft power of the enterprise.

Adhering to transformation development

Change operating ideas, innovate working methods and adhere to transformation of the staff to operators, so as to promote sound development of the enterprise.

Gathering growth momentum

Promote key improvement projects, tap growth potential, stimulate growth vitality and gather sustainable growth momentum of the enterprise.

1. ***Beijing Brand***

In 2018, Beijing Brand will adhere to the principle of "customer-focused and market-oriented" and be committed to properly defining its product; meanwhile, it will make efforts to develop 2.0 models and improve product competitiveness, so as to ensure the success of strategic vehicle models; it will use key products to reverse the trend in the market and improve the selling ability.

2. ***Beijing Benz***

In 2018, under the guidance of the strategy of "achieving excellence in 2020", Beijing Benz will focus on building "core competitiveness" to break through the production capacity limit, ensure launch of new products, promote construction of intelligent factories and implement requirements of "Made in China 2025".

In terms of sales, it will adhere to the successful marketing management experience in 2017, extensively explore local markets, carry out reasonable allocation and ensure "smooth driving"; it will adhere to the concept of "people first" and construct a brand-new distributor network ecology; it will build a young brand image and deliver the best customer experience through integration of online and offline marketing.

3. ***Beijing Hyundai***

In 2018, Beijing Hyundai will take "innovation for changes, focus on local areas, communication and collaboration, cost reduction and efficiency improvement, winning in 2018 with high quality" as the operating policy, comprehensively promote localization strategies, improve product and cost competitiveness, adjust the structure of production capacity, optimize the organizational structure and the management system, seek to maximize the profits while improving the sales volume, so as to regain its status as a mainstream enterprise in the industry.

4. ***Fujian Benz***

In 2018, Fujian Benz will enlarge profit margins according to the guideline of "accelerating product and technology upgrade and building competitiveness in the high-end multi-purpose passenger vehicle market". Meanwhile, it will innovate new methods for company development, make efforts for quality assurance, cost control, risk prevention and safe production, continue to progress toward becoming a benchmarking manufacturer of high-end multi-purpose passenger vehicles in China, and endeavor for a leading position in terms of share of the Chinese multi-purpose passenger vehicle market.

SUBSEQUENT EVENTS

On January 22, 2018, BAIC Guangzhou Automotive Co., Ltd. ("**BAIC Guangzhou**"), a wholly-owned subsidiary of the Company, BAIC Group, Daimler Greater China, Bohai Automotive System Co. Ltd., Beijing Shougang Lvjie Venture Capital Co. Ltd. and other shareholders of Beijing Electric Vehicle, entered into the agreement on asset swap and acquisition of assets by issuance of shares with Chengdu Qianfeng Electronics Co. Ltd. ("**QianFeng**"), pursuant to which, BAIC Guangzhou agreed to dispose all of its 8.15% equity interest in Beijing Electric Vehicle to QianFeng in exchange for 62,409,505 shares to be issued to BAIC Guangzhou by QianFeng. Upon completion of this transaction, BAIC Guangzhou will hold 6.51 % equity interest in QianFeng.

On February 23, 2018, the Company and Beijing Benz, a non wholly-owned subsidiary of the Company, entered into an asset transfer agreement, pursuant to which the Company agreed to dispose of, and Beijing Benz agreed to purchase, the transferred assets of the Beijing Branch of the Company at a consideration of approximately RMB5,837 million.

USE OF PROCEEDS OBTAINED FROM THE INITIAL PUBLIC OFFERING

The Company was listed on the Main Board of the Stock Exchange on December 19, 2014. The net proceeds from the initial public offering of the Company are approximately RMB8,523.8 million.

In 2017, the Company's usage of the proceeds obtained from the initial public offering is consistent with those as set forth in the section headed "Future Plans and Use of Proceeds" in the prospectus.

PROFIT DISTRIBUTION

In accordance with the provisions of Article 193 of the Articles of Association of the Company, distributable profits will be determined based on either the Chinese accounting standards and IFRS, whichever is lower.

The Board recommends the Company to distribute a final dividend for the year 2017 of RMB0.10 per share (tax inclusive). The proposal will be submitted to the Company's 2017 annual general meeting (the "**2017 Annual General Meeting**") for review and approval. The expected date of distribution will be no later than August 24, 2018.

For details of the distribution of a final dividend by the Company, please refer to the circular for the 2017 Annual General Meeting to be despatched by the Company in due course.

MATERIAL LITIGATION AND ARBITRATION

As at December 31, 2017, the Company had no material litigation or arbitration. The directors of the Company (the "**Directors**") were also not aware of any material litigation or claims which were pending or had significant adverse effect on the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company in 2017.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The term of office of Directors of the second session of the Board was longer than such term for retirement by rotation at least every three years as specified in provision A.4.2 of the Corporate Governance Code (the "**Code**") in Appendix 14 of the Listing Rules. On April 21, 2017, Directors of the third session of the Board were elected at the 2017 first extraordinary general meeting of the Company, whose the terms of office commenced on April 21, 2017 and ends at the end of the term of office of the third session of the Board; on the same date, a meeting was convened by the third session of the Board to elect the Chairman of the Board of the Company, chairmen and members of the Strategy Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee and appoint relevant senior management.

On November 29, 2017, the employee representative supervisors of the third session of the board of supervisors of the Company (the "**Board of Supervisors**") were elected at the employee representative congress of the Company. On December 5, 2017, the non-employee representative supervisors of the third session of the Board of Supervisors were elected at the 2017 second extraordinary general meeting of the Company. The Company thereby completed the establishment of the third session of the Board of Supervisors. The terms of office of the employee representative supervisors and non-employee representative supervisors of the third session of the Board of Supervisors commenced on December 5, 2017 and ends at the end of the term of office of the third session of the Board of Supervisors. On the same date, a meeting was convened by the third session of the Board of Supervisors to elect the chairman of the Board of Supervisors of the Company.

Save as disclosed above, the Directors of the Company as a whole believe that for 2017, the Company had complied with all the Code provisions under the Code in all other respects.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

Having made all reasonable enquiries to all Directors and supervisors of the Company, the Board confirms that, in 2017, the Directors and the supervisors of the Company have all strictly followed the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") in Appendix 10 to the Listing Rules. The Company has not adopted a standard lower than that provided for by the Model Code in relation to the securities dealings of the Directors and the supervisors of the Company.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the Company's 2017 annual results and audited consolidated financial statements as at December 31, 2017 prepared in accordance with the IFRS.

DATE FOR ANNUAL GENERAL MEETING AND CLOSURE OF SHARE REGISTER OF MEMBERS

For details of the resolutions to be considered and approved at the 2017 Annual General Meeting, the book closure date of H shares, the record date for payment of dividends, and the date of the 2017 Annual General Meeting, please refer to the circular for the 2017 Annual General Meeting to be despatched by the Company in due course.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement will be published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.baicmotor.com) respectively. The Company will dispatch to the shareholders in due course all the information required by the Listing Rules together with the 2017 annual report of the Company, which will also be published on the websites of the Company and the Stock Exchange.

By order of the Board
BAIC Motor Corporation Limited
Gu Xin
Secretary to the Board and Company Secretary

Beijing, the PRC, March 22, 2018

As at the date of this announcement, the Board comprises Mr. Xu Heyi, as chairman of the Board and non-executive Director; Mr. Zhang Xiyong and Mr. Zhang Jianyong, as non-executive Directors; Mr. Chen Hongliang, as executive Director; Mr. Qiu Yinfu, Mr. Hubertus Troska, Mr. Bodo Uebber, Mr. Guo Xianpeng, Ms. Wang Jing and Mr. Zhu Baocheng, as non-executive Directors; and Mr. Ge Songlin, Mr. Wong Lung Tak Patrick, Mr. Bao Robert Xiaochen, Mr. Zhao Fuquan and Mr. Liu Kaixiang, as independent non-executive Directors.

* *For identification purpose only*