北京汽车
BAIC MOTOR

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, 2018

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**"or "**we**" or "**our**") for the year ended December 31, 2018 (the "**2018**") in conjunction with the comparative financial data of the previous year.

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2018

	Note	As at December 31, 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**43,217,822**	42,370,945
Land use rights		**7,378,380**	7,462,383
Intangible assets		**13,123,352**	13,738,986
Investments accounted for using equity method		**16,185,648**	14,706,908
Financial assets at fair value through other comprehensive income		**1,742,729**	2,355,239
Deferred income tax assets	*4*	**7,925,601**	7,035,788
Other long-term assets		**701,180**	938,824
		90,274,712	88,609,073
Current assets			
Inventories		**18,962,575**	16,875,871
Accounts receivable	*5*	**21,988,198**	19,882,114
Advances to suppliers	*6*	**465,988**	563,410
Other receivables and prepayments	*7*	**4,132,578**	4,102,529
Restricted cash		**820,174**	545,073
Cash and cash equivalents		**35,389,883**	36,824,906
		81,759,396	78,793,903
Total assets		**172,034,108**	167,402,976

CONSOLIDATED BALANCE SHEET (Continued)
AS AT DECEMBER 31, 2018

	Note	As at December 31, 2018 RMB'000	2017 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	8	**8,015,338**	7,595,338
Perpetual bond		**1,998,160**	–
Other reserves		**21,041,578**	18,982,383
Retained earnings		**17,360,387**	14,258,311
		48,415,463	40,836,032
Non-controlling interests		**20,822,318**	18,804,890
Total equity		**69,237,781**	59,640,922
LIABILITIES			
Non-current liabilities			
Borrowings	9	**14,907,282**	13,166,960
Deferred income tax liabilities	4	**758,006**	877,807
Provisions		**2,620,030**	2,498,714
Deferred income		**4,084,833**	4,157,716
		22,370,151	20,701,197
Current liabilities			
Accounts payable	10	**38,632,933**	35,559,081
Contract liabilities		**234,226**	405,371
Other payables and accruals	11	**28,789,066**	27,061,979
Current income tax liabilities		**1,992,153**	3,715,161
Borrowings	9	**8,955,960**	18,478,051
Provisions		**1,821,838**	1,841,214
		80,426,176	87,060,857
Total liabilities		**102,796,327**	107,762,054
Total equity and liabilities		**172,034,108**	167,402,976

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

		For the year ended December 31,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**151,920,390**	134,158,541
Cost of sales	*13*	**(114,913,751)**	(98,659,286)
Gross profit		**37,006,639**	35,499,255
Selling and distribution expenses	*13*	**(10,432,043)**	(11,919,545)
General and administrative expenses	*13*	**(6,569,595)**	(5,006,953)
Other gains/(losses), net	*12*	**623,048**	(1,054,684)
Operating profit		**20,628,049**	17,518,073
Finance income	*14*	**760,930**	659,503
Finance costs	*14*	**(1,117,957)**	(1,107,422)
Finance costs, net		**(357,027)**	(447,919)
Share of profit/(loss) of investments accounted for using equity method		**903,836**	(33,791)
Profit before income tax		**21,174,858**	17,036,363
Income tax expense	*15*	**(6,903,525)**	(6,038,062)
Profit for the year		**14,271,333**	10,998,301
Profit attributable to:			
Equity holders of the Company		**4,429,465**	2,252,813
Non-controlling interests		**9,841,868**	8,745,488
		14,271,333	10,998,301
Earnings per share for profit attributable to equity holders of the company for the year (expressed in RMB per share)			
Basic and diluted	*16*	**0.55**	0.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2018

		For the year ended December 31,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Profit for the year		**14,271,333**	10,998,301
Other Comprehensive Income:			
Items that may be reclassified to profit or loss			
Gains on cash flow hedges, net of tax		**32,820**	172,984
Share of other comprehensive loss of investments accounted for using the equity method		**(5,223)**	–
Currency translation differences		**(37)**	(1,175)
Items that will not be reclassified to profit or loss			
Changes in fair value of financial assets at fair value through other comprehensive income		**(517,458)**	538,627
Other comprehensive (loss)/income for the year		**(489,898)**	710,436
Total comprehensive income for the year		**13,781,435**	11,708,737
Attributable to:			
Equity holders of the Company		**3,924,007**	2,878,782
Non-controlling interests		**9,857,428**	8,829,955
		13,781,435	11,708,737

NOTES:

1 GENERAL INFORMATION

BAIC Motor Corporation Limited (the "**Company**"), 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 ("**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 thousand Yuan ("**RMB'000**"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on March 27, 2019.

2 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and disclosure requirements of the Hong Kong Companies Ordinance Cap 622.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) which are measured at fair value.

(a) New standards, amendments to standards and interpretations adopted by the Group

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

• IFRS 9	Financial Instruments
• IFRS 15	Revenue from Contracts with Customers
• Amendments to IAS 40	Transfers to Investment Property
• Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
• Interpretation 22	Foreign Currency Transactions and Advance Consideration
• Annual Improvements 2014-2016 cycle	

The Group has changed its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards, amendments to standards and interpretations not yet adopted

Certain new standards, amendments to standards and interpretations have been published that are not mandatory for December 31, 2018 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards, amendments to standards and interpretations is set out below.

- ***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. As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB129,893,000.

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 Group will apply the standard from its mandatory adoption date of January 1, 2019.

There are no other new standards, amendments to standards and interpretations that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(c) Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Group's financial statements.

- **IFRS 9 Financial instruments – Impact of adoption**

IFRS 9 replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" that relate to the recognition, classification and measurement of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has adopted IFRS 9 as it becomes mandatory on January 1, 2018.

(i) Classification and measurement

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

The Group elected to present in other comprehensive income ("**OCI**") changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of approximately RMB2,355,239,000 were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income (FVOCI) and fair value gains of approximately RMB538,627,000 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on January 1, 2018.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- Amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest;

- FVOCI (recycling), if the contractual cash flows of the investments comprise solely payments of principal and interests and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in OCI, except for the recognition in profit or loss of expected credit losses.

The carrying amounts of these financial assets as at January 1, 2018 have not been impacted by the initial application of IFRS 9.

There is no 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 and the Group does not have any such liabilities. The de-recognition rules have been transferred from IAS 39 and have not been changed.

(ii) *Derivatives and hedging activities*

The new hedge accounting rules aligns 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 principle-based approach. However, at this stage the Group does not expect to identify any new hedge relationships. The Group's current hedge relationships are qualified as continuing hedges upon the adoption of IFRS 9. Accordingly, there is no significant impact on the accounting for its hedging relationships.

(iii) *Impairment for financial assets*

Trade receivables

The Group mainly has trade receivables that are subject to IFRS 9's new expected credit loss model. The contract assets balance is immaterial for each of the periods presented.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses ("**ECL**") which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

On that basis, an associate of the Company has restated its opening retained earnings at December 31, 2017 previously calculated under IAS 39 upon adoption of IFRS 9. As a result, the Group and the Company have accounted for this corresponding impact by restating the opening balances of investments accounted for using equity method and retained earnings at January 1, 2018 by an amount of RMB82,272,000. Other than this, the impact of the change in impairment methodology is not significant to the Group.

Trade receivables are written off when there is no reasonable expectation of recovery.

Other financial assets at amortized cost

Other financial assets at amortized cost include other receivables. The Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition or the financial instrument is not determined to have low credit risk at the reporting date, in which cases the loss allowance is measured at an amount equal to lifetime ECLs.

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

- **IFRS 15 Revenue from Contracts with Customers – Impact of adoption**

  On January 1, 2018, the Group adopted IFRS 15, applying the modified retrospective method to contracts that were not completed as of January 1, 2018. The adoption did not have a material impact on the retained earnings as of January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under IFRS 15, while prior period amounts are not adjusted and continue to be reported in accordance with the Group's historical accounting standard.

  Management has identified the following areas being affected:

  (i) *Multiple performance obligations and contract assets*

  Under IFRS 15, the Group's contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenues to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices of each distinct performance obligation based on the prices charged to customers when sold on a standalone basis. Where standalone selling price is not directly observable, the Group generally estimates selling prices based on when they are sold to customers of a similar nature and geography. Since the different performance obligations in one contract usually complete in the same short period of time, the new standard does not have a significant impact on its financial statements.

  As to the accounting for costs incurred in fulfilling a contract, the amount of costs which were previously expenses and may need to be recognized as assets under IFRS 15 is not significant to the Group.

  (ii) *Transportation costs*

  The Group often delivers products via transportation service providers and may thereby charge customers a separate fee for its transportation costs or have it included in the price of products. The Group is considered the principal for the transportation service under such arrangements and determines the transportation service as a separate performance obligation. The transportation costs previously classified as selling and distribution expenses become cost of sales under IFRS 15.

  Such reclassification impact amounted to RMB1,029,886,000 for the year ended December 31, 2018.

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, 2018				
Total revenue	16,634,842	135,415,193	(129,645)	151,920,390
Inter-segment revenue	(129,645)	–	129,645	–
Revenue from external customers	16,505,197	135,415,193	–	151,920,390
Timing of revenue recognition				
– At a point in time	16,310,720	134,200,864	–	150,511,584
– Over time	194,477	1,214,329	–	1,408,806
	16,505,197	135,415,193	–	151,920,390
Gross (loss)/profit	(3,516,233)	40,522,872	–	37,006,639
Other profit & loss disclosure:				
Selling and distribution expenses				(10,432,043)
General and administrative expenses				(6,569,595)
Other loss, net				623,048
Finance cost, net				(357,027)
Share of profit of investments accounted for using equity method				903,836
Profit before income tax				21,174,858
Income tax expense				(6,903,525)
Profit for the year				14,271,333

	Passenger vehicles – Beijing Brand *RMB'000*	**Passenger vehicles – Beijing Benz** *RMB'000*	**Elimination** *RMB'000*	**Total** *RMB'000*
Other information:				
Significant non-cash expenses				
Depreciation and amortization	**(3,376,628)**	**(3,768,322)**	**–**	**(7,144,950)**
Provisions for impairments on assets	**(228,974)**	**(608,269)**	**–**	**(837,243)**
As at December 31, 2018				
Total assets	**82,185,635**	**102,975,768**	**(13,127,295)**	**172,034,108**
Including:				
Investments accounted for using equity method	**16,185,648**	**–**	**–**	**16,185,648**
Total liabilities	**(43,406,394)**	**(60,298,075)**	**908,142**	**(102,796,327)**

	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
Timing of revenue recognition				
– At a point in time	17,090,665	115,743,643	–	132,834,308
– Over time	294,948	1,029,285	–	1,324,233
	17,385,613	116,772,928	–	134,158,541
Gross (loss)/profit	(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

	Passenger Vehicles – Beijing Brand *RMB'000*	Passenger vehicles – Beijing Benz *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
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)

There is no customer accounting for 10 percent or more of the Group's revenue for each of the years ended December 31, 2018 and 2017.

The Group is domiciled in PRC. The percentage of its revenue from external customers residing in the PRC is approximately 99.8% for the year ended December 31, 2018 (2017: 99.9%).

As at December 31, 2018, 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 98.4% (December 31, 2017: 98.2%).

4 DEFERRED INCOME TAXES

	As at December 31, **2018** ***RMB'000***	2017 *RMB'000*
Deferred income tax assets:		
– to be recovered after 12 months	**2,205,181**	1,994,223
– to be recovered within 12 months	**5,720,420**	5,041,565
	7,925,601	7,035,788
Deferred income tax liabilities:		
– to be settled after 12 months	**(720,186)**	(740,856)
– to be settled within 12 months	**(37,820)**	(136,951)
	(758,006)	(877,807)

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

Deferred income tax assets	**Provisions for impairment losses**	**Accruals**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2018	**186,514**	**5,539,579**	**1,309,695**	**7,035,788**
Credited/(Charged) to statement of comprehensive income	**140,492**	**760,728**	**(11,407)**	**889,813**
At December 31, 2018	**327,006**	**6,300,307**	**1,298,288**	**7,925,601**
At January 1, 2017	213,259	4,744,926	546,201	5,504,386
(Charged)/credited 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

Deferred income tax liabilities	**Capitalized interest**	**Valuation surplus upon acquisition of a subsidiary**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2018	**(41,899)**	**(740,855)**	**(95,053)**	**(877,807)**
Credited to statement of comprehensive income	**4,079**	**20,669**	**95,053**	**119,801**
At December 31, 2018	**(37,820)**	**(720,186)**	**–**	**(758,006)**
At January1, 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)

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 RMB22,324,693,000 (December 31, 2017: RMB18,917,452,000) that can be carried forward against future taxable income as at December 31, 2018. The unrecognized tax loss amounting to RMB21,039,161,000 (December 31, 2017: RMB17,627,529,000) can carry forward for utilization in future but are expiring within five years.

5 ACCOUNTS RECEIVABLE

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables, gross *(note (a))*	**17,791,971**	11,670,328
Less: provision for impairment	**(125,591)**	(49,286)
	17,666,380	11,621,042
Notes receivable *(note (b))*	**4,321,818**	8,261,072
	21,988,198	19,882,114

Notes:

(a) The majority of the Group's sales are on credit. A credit period may be granted in respect of sales to customers with good credit history and long-established with the Group. The ageing analysis of trade receivables based on invoice date is as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Current to 1 year	**12,798,972**	7,766,546
1 to 2 years	**1,758,269**	3,806,594
2 to 3 years	**3,160,637**	83,503
Over 3 years	**74,093**	13,685
	17,791,971	11,670,328

As at December 31, 2018 and 2017, movement on the provision for impairment of trade receivables is as follows:

	2018	2017
	RMB'000	*RMB'000*
As at January 1	**49,286**	1,037
Provision for impairment recognised during the year	**76,305**	48,249
As at December 31	**125,591**	49,286

(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 as at respective balance sheet dates are as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Pledged notes receivable	**2,786,005**	5,286,310

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 PREPAYMENTS

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Deductible value-added tax and prepaid consumption tax	**3,002,272**	3,365,230
Receivable from disposals of property, plant and equipment	**527,761**	139,431
Receivable from sales of raw materials	**575,774**	451,325
Service fees	**82,476**	83,306
Deposits	**16,787**	7,647
Others	**117,798**	189,144
	4,322,868	4,236,083
Less: provision for impairment	**(190,290)**	(133,554)
	4,132,578	4,102,529

8 SHARE CAPITAL

	Number of ordinary shares of RMB1 each	
	'000	*RMB'000*
At January 1, 2017 and January 1, 2018	7,595,338	7,595,338
Additions *(note (a))*	420,000	420,000
At December 31, 2018	8,015,338	8,015,338

(a) On May 3, 2018, the Company completed the placement of 420,000,000 H Shares with nominal value of RMB1.00 at a price of HK$7.89 per share.

9 BORROWINGS

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Non-current		
Borrowings from financial institutions	**4,815,733**	3,077,269
Corporate bonds *(note (a))*	**10,091,549**	10,089,691
	14,907,282	13,166,960

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Current		
Borrowings from financial institutions	**6,690,287**	15,716,263
Add: current portion of non-current bank borrowings	**266,480**	762,480
Corporate bonds *(note (a))*	**1,999,193**	1,999,308
	8,955,960	18,478,051
Total borrowings	**23,863,242**	31,645,011

Maturity of borrowings

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**8,955,960**	18,478,051
Between 1 and 2 years	**6,163,302**	166,480
Between 2 and 5 years	**6,445,811**	7,400,560
Over 5 years	**2,298,169**	5,599,920
	23,863,242	31,645,011

Contractual repricing dates upon interest rate changes

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Within 6 months	**7,667,149**	16,520,000
6 to 12 months	**2,067,180**	504,660
	9,734,329	17,024,660

Weighted average annual interest rates

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Borrowings from financial institutions	**3.54%**	3.71%
Corporate bonds	**4.17%**	3.99%

Currency denomination

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
RMB	**21,880,423**	29,682,159
Euro	**1,982,819**	1,962,852
	23,863,242	31,645,011

Undrawn facilities at floating rates

	As at December 31, 2018 RMB'000	2017 RMB'000
Within 1 year	**18,218,064**	205,000
Over 1 year	**5,500,724**	23,240,275
	23,718,788	23,445,275

Notes:

(a) Balances at December 31, 2018 include borrowings of RMB1,746 million (December 31, 2017:RMB3,616 million) obtained from BAIC Finance, an associate of the Group. The remaining balances were obtained from banks.

(b) Corporate bonds are analyzed as follows:

Issuer	**Issue date**	**Interest rate per annum**	**Par value** *RMB'000*	**Carrying value** *RMB'000*	**Maturity**
At December 31, 2018					
BAIC Investment Co., Ltd. ("**BAIC Investment**")	10 December 2015	3.60%	1,500,000	1,498,769	5 years
BAIC Investment	17 March 2016	3.15%	1,500,000	1,498,618	5 years
BAIC Investment	20 January 2017	4.29%	800,000	799,564	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	2,498,429	7 years
The Company	4 July 2017	4.72%	2,300,000	2,298,169	7 years
The Company	15 August 2018	3.60%	2,000,000	1,999,193	270 days
				12,090,742	
At December 31, 2017					
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	

(c) As at December 31, 2018, all borrowings were unsecured except for bank borrowings of RMB100,000,000 (December 31, 2017: RMB200,000,000) which were secured by the Company's equity interest in BAIC Guangzhou.

(d) The fair values of the borrowings 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,	
	2018	2017
	RMB'000	*RMB'000*
Trade payables	**29,746,240**	26,152,675
Notes payable	**8,886,693**	9,406,406
	38,632,933	35,559,081

Aging analysis of trade payables is as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Current to 1 year	**29,723,797**	26,073,357
1 year to 2 years	**13,597**	68,632
2 years to 3 years	**2,797**	8,885
Over 3 years	**6,049**	1,801
	29,746,240	26,152,675

11 OTHER PAYABLES AND ACCRUALS

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Sales discounts and rebates	**8,856,166**	7,724,930
Other taxes	**3,929,019**	1,869,813
Payable for general operations	**3,430,645**	2,599,870
Payable for property, plant and equipment and intangible assets	**3,130,033**	3,181,802
Payable for services	**2,929,696**	2,876,349
Advertising and promotion	**2,701,719**	2,697,697
Wages, salaries and other employee benefits	**1,136,396**	1,054,840
Payables for transportation and warehouse expenses	**1,123,783**	1,082,664
Dividend payable *(note a)*	**645,596**	2,706,338
Interests payable	**266,876**	287,520
Derivative financial instruments *(note b)*	**180,391**	304,959
Deposits	**116,936**	195,846
Others	**341,810**	479,351
	28,789,066	27,061,979

Notes:

(a) The dividend payable also includes the interest of perpetual bond amounted to RMB112 millions as of December 31, 2018.

(b) Derivative financial instruments represented forward foreign exchange contracts entered by the Group to hedge against the relative currency movements for settlement of Euro denominated trade payables (the hedged forecast transactions).

12 OTHER GAINS/(LOSSES), NET

	For the year ended December 31, 2018 *RMB'000*	2017 *RMB'000*
Government grants	**1,313,550**	312,950
Gain from sales of scrap materials	**104,184**	3,720
(Loss)/gain on disposal of property, plant and equipment and intangible assets	**(64,651)**	22,019
Loss on forward foreign exchange contracts with fair value through profit or loss	**(819,266)**	(957,151)
Foreign exchange gain/(losses)	**133,727**	(408,859)
Others	**(44,496)**	(27,363)
	623,048	(1,054,684)

13 EXPENSES BY NATURE

	For the year ended December 31, 2018 *RMB'000*	2017 *RMB'000*
Changes in inventories of finished goods and work-in-progress and raw materials used	**99,687,027**	85,544,688
Services fees and charges	**7,465,758**	5,609,201
Depreciation and amortization	**7,144,950**	5,848,056
Employee benefit costs	**5,087,637**	5,232,168
Taxes and levies	**4,856,789**	3,856,090
Advertising and promotion	**2,506,611**	2,651,509
Transportation and warehouse expenses	**2,290,503**	2,522,595
Daily operating expenses	**1,428,661**	1,642,331
Provision for impairment of assets	**837,243**	196,206
Warranty expenses	**526,312**	1,379,896
Auditor's remuneration-audit services	**8,745**	8,822
Others	**75,153**	1,094,222
Total cost of sales, selling and distribution expenses, and general and administrative expenses	**131,915,389**	115,585,784

14 FINANCE COSTS, NET

	For the year ended December 31, 2018 *RMB'000*	2017 *RMB'000*
Finance income		
Interest on deposits in financial institutions	**760,930**	659,503
Finance costs		
Interest expense on borrowings from financial institutions	**690,377**	783,894
Interest expense on corporate bonds	**515,108**	528,764
Amortization of discount on non-current provisions	**202,072**	154,777
	1,407,557	1,467,435
Less: amount capitalized in qualifying assets	**(289,600)**	(360,013)
	1,117,957	1,107,422
Finance costs, net	**357,027**	447,919

15 INCOME TAX EXPENSE

	For the year ended December 31, 2018 *RMB'000*	2017 *RMB'000*
Current income tax	**7,829,027**	7,603,125
Deferred income tax	**(925,502)**	(1,565,063)
	6,903,525	6,038,062

According to the New and High-Technology Enterprise Certificate issued by relevant government regulatory bodies, certain entities of the Group were recognized as new and high-technology enterprises with preferential income tax rate of 15%:

Except for the aforementioned companies and certain overseas subsidiaries in Hong Kong and Germany which are subject to statutory income tax rates in respective tax jurisdictions, provision for income tax is calculated based on the statutory income tax rate of 25% for each of the years ended December 31, 2018 and 2017 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,	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**21,174,858**	17,036,363
Tax calculated at the statutory tax rate of 25%	**5,293,715**	4,259,091
Preferential tax rates on profit or loss	**506,123**	415,899
Impact on share of results of investments accounted for using equity method	**(225,959)**	8,448
Income not subject to tax	**(3,274)**	(3,042)
Expenses not deductible for tax purposes	**148,697**	43,250
Tax losses/deductible temporary differences for which no deferred tax was recognized	**1,223,727**	1,345,855
Additional deduction on research and development expenses	**(40,351)**	(31,439)
Others	**847**	–
Tax charge	**6,903,525**	6,038,062

16 EARNINGS PER SHARE

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

	For the year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Profit attributable to ordinary shareholders of the Company *(note (a))*	**4,317,465**	2,252,813
Weighted average number of ordinary shares in issue (thousands)	**7,875,338**	7,595,338
Earnings per share for profit attributable to ordinary shareholders of the Company (RMB)	**0.55**	0.30

Notes:

(a) For the year ended December 31, 2018, the profit attributable to equity holders of the Company amounted to RMB4,429,465,000, including the profit attributable to ordinary shareholders and perpetual bond holders of approximately RMB4,317,465,000 and RMB112,000,000, respectively.

(b) During the years ended December 31, 2018 and 2017, 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,	
	2018	2017
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.19 per share (2017: RMB0.10 per share) *(note (a))*	**1,522,914**	801,533

Note:

(a) The 2018 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, 2019.

The final dividend of approximately RMB801,533,000 (RMB0.10 per share) relating to the year ended December 31, 2017 was approved by the shareholders at the annual general meeting held in June 2018 and paid in August 2018.

18 EVENTS AFTER THE REPORTING PERIOD

On January 29, 2019, the Company issued 2019 first tranche of ultra short-term commercial paper in an amount of RMB1,500,000,000 with a term of 270 days and the annual coupon rate of 3.25%.

MANAGEMENT DISCUSSION AND ANALYSIS

According to the data of the China Association of Automobile Manufacturers ("**CAAM**"), in 2018, the wholesale sales volume of passenger vehicles for the year reached 23.71 million units, representing a year-on-year decrease of 4.1%, which has been the first negative growth in annual sales volume for many years. For the whole year, affected by various factors including macro economic conditions, the passenger vehicle industry had following characteristics:

In terms of industrial policies, the industrial restructuring and supply-side reform further promoted the reform of the automobile industry; policy changes, including the removal of the restriction on shareholding percentages of foreign investment, cancellation of the preferential treatment on vehicle purchase tax, loosened import policies and a decrease in tariffs on components and parts, the adoption of the dual-credit scheme, the adjustment of subsidy rules for new energy vehicles, and stricter emission environmental protection requirements, bring about both challenges and opportunities for the passenger vehicle market, and the industry is facing a profound reform.

According to the data of the CAAM, in terms of segmented market, the growth rate of SUV changed from a positive number to a negative number, with the sales volume of 9.995 million units for the year, representing a year-on-year decline of 2.5%; the sales volume of sedans for the year was 11.528 million units, representing a year-on-year decrease of 2.7%; MPV and CUV saw the most significant year-on-year decrease of 16.2% and 17.3% respectively in the overall sales volume.

Meanwhile, premium brands maintained an improvement in the sales volume. Major products of domestic premium brands saw a double-digit year-on-year increase in the sales volume, showing the obvious trend of consumption upgrades.

According to the data of CAAM, in terms of series market, the sales volume of Chinese-branded passenger vehicles reached 9.98 million units for the year, representing a year-on-year decrease of 8.0%, and the market share of those vehicles was 42.1%, representing a decrease of 1.8 percentage points as compared with last year. The Chinese-branded vehicles phased out low-end vehicle models and outdated capacities, steadily improved the product quality and gradually optimized research and development procedures, standards and systems. Chinese-branded vehicles also have begun to be sold at a higher price range, with continuous expansion of the product range.

According to the data of the CAAM, new energy passenger vehicles saw a strong growth trend, with the sales volume of 1.053 million units for the year, representing a year-on-year growth of 82.0%. Among which, the sales volume of pure electric passenger vehicles reached 0.788 million units, representing a year-on-year increase of 68.4%. The mileage range of new energy passenger vehicle products was further increased, and there was a tendency towards diversity in the technical routes of 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).

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

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, our proprietary brand, is operated under four series, i.e. Senova, New Energy Vehicle, BJ and Wevan, 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" and the service philosophy of "New Driving Enjoyment Ecosystem".

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". In terms of business organization, the Company engages BAIC Group Off-road Vehicle Co., Ltd. (formerly known as the Off-road Vehicle Branch of BAIC Group) to produce main products of "BJ" series, which are sold externally by the Company. For details of the above arrangement, see the section headed "Relationship with BAIC Group" in the Prospectus published on December 9, 2014 of the Company.

New Energy Product

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, in 2018, it put many pure electric new energy vehicle models based on traditional oil-powered car models on the market. The major vehicle models continue to be industry-leading, with a mileage range in the integrated operating condition reaching 460 km. Meanwhile, the Company started the development of various pure electric vehicle model projects based on the newly launched traditional oil-powered car model platform.

In terms of hybrid electric product, Beijing Brand plans to complete the upgrade from traditional oil-powered products to hybrid electric products by stages, and is committed to realizing the development of new products in comprehensive consideration of gasoline engine, 48V hybrid electric vehicle model, hybrid electric vehicle model and plug-in hybrid electric vehicle model.

Wevan

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

In order to further optimize the product structure, rationalize asset allocation and improve the profitability, the Company continuously promoted the strategic adjustment of Wevan business in 2018: it reduced the production and sales volume of Wevan products in an orderly manner, so as to improve the overall market positioning of products of Beijing Brand; meanwhile, it promoted the work in relation to the disposal of the Wevan business and related assets to BAIC Group, the controlling shareholder of the Company, and its subsidiaries.

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 five types of Mercedes-Benz vehicles, namely the E-Class sedan, the C-Class sedan, A-Class sedan, GLC SUV and GLA SUV.

Beijing Benz has successfully established the Mercedes-Benz passenger vehicle production base with the highest production volume and the largest area in the world. It has three vehicle model platforms, namely front wheel drive vehicle, rear wheel drive vehicle and electric vehicle, and an engine plant and a power battery factory.

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.

Beijing Hyundai has a nation-wide production capacity arrangement of "Five Factories in Three Regions"[1], which forms a nation-wide production and marketing system. In 2018, Beijing Hyundai successfully surpassed the "10 Million Unit Level", with the accumulative production and sales volume in China exceeding 10 million units.

1 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.

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. 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. 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, M276 and M264 engines. It will successively manufacture various types of engines. Beijing Benz has the first power battery factory outside Germany in the global production network of Daimler AG, and will produce various types of new energy power 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., 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. On April 25, 2018, the Company and Daimler Greater China entered into the capital increase agreement, pursuant to which both parties shall jointly make capital contributions to MBLC by RMB1.5 billion, according to the original shareholding percentages, so as to promote continuous development of its businesses. MBLC's sale-leaseback volume in 2018 increased by more than 20%, which continuously 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 ("**Hyundai Capital**") and Hyundai Motor hold the remaining equity interest. In 2018, BHAF was ranked fifth in the industry in terms of the new retail loan contract volume, which further stimulated the sales of Beijing Hyundai's new models; the size of businesses including the inventory financing expanded continuously, showing the stable progress in business diversification.

Other related businesses

During 2018, we conducted research and development of high-end passenger vehicles and light materials, information big data and used car businesses through relevant joint ventures.

Production and sales of various brands in 2018

In 2018, facing the increasingly severe competition in the industry, four business segments of the Group sold a total of 1.46 million units of vehicles, representing a year-on-year decrease of 0.4%. Performances of the four business segments varied: Affected by increased industry competition and business scope adjustment, Beijing Brand suffered a decline in the sales performance, and was actively promoting the product upgrade, capacity optimization, cost saving and other work; Beijing Hyundai achieved a year-on-year increase in the sales volume, against the backdrop of an overall decline in the industry, thus regaining its status as a mainstream enterprise; Beijing Benz and Fujian Benz continued to maintain a strong development trend and steadily increase their market share.

1. Beijing Brand

In 2018, affected by increased industry competition, business scope adjustment and other factors, Beijing Brand stood up to multiple tests and was under performance pressure: in the year, 156 thousand units of passenger vehicles were sold; among which, the sales volume of Senova series was 65 thousand units, representing a year-on-year decrease of 24.1%; the sales volume of BJ series was 31 thousand units, representing a year-on-year decrease of 22.4%; due to strategic adjustment, the sales volume of Wevan series was 15 thousand units, representing a year-on-year decrease of 82.9%; the sales volume of new energy passenger vehicles was 45 thousand units, representing a year-on-year increase of 94.2%. The Group actively promoted the optimization and integration of resources of Beijing Brand, gradually adjusted and reduced the low-end capacity, facilitated the product quality improvement and realized brand repositioning.

Although Beijing Brand was under sales volume pressure on the whole, throughout the whole year of 2018, there were highlights of its development:

On one hand, off-road vehicle products outstood. BJ40 PLUS and other vehicle models launched in the year were widely recognized in the market, and Beijing Brand has become the No.1 off-road vehicle brand in China with the increasingly obvious competitive advantages of differentiation. On the other hand, the Senova brand completely entered into the 2.0 era, and significantly improved its product strength with successive launch of Zhixing, Zhidao and other main products. Meanwhile, it continued to lead the rapid development of the new energy industry, with the mileage range of new energy products in the integrated operating condition reaching 460 km.

2. *Beijing Benz*

In 2018, Beijing Benz continued to saw a rapid growth, with the sales volume of 485 thousand units of vehicles for the year, representing a year-on-year increase of 14.8%, sustaining the front rank in terms of growth rate among joint venture premium passenger vehicle brands, which supported the Mercedes-Benz brand in making a breakthrough once again in terms of annual sales volume in a single market. In 2018, Beijing Benz contributed to over 70% of the sales of Mercedes-Benz products in China, and continued to steadily increase its market share.

Both the whole vehicle production volume and the engine production volume of Beijing Benz exceeded 2 million in 2018, and Beijing Benz achieved such results in merely two years from the date when its whole vehicle and engine production volumes exceeded 2 million for the first time. Meanwhile, a series of new products, including new-generation C-Class long-wheelbase, GLC SUV long-wheelbase and new A-Class long-wheelbase vehicles, were successively and successfully put into production.

With increase in the production and sales volume, Beijing Benz made efforts to improve the product strength and promote quality improvement. The GLA SUV model was once again ranked first in terms of quality of new vehicles in J.D.Power[2] Compact Premium SUV Ratings in 2018.

In 2018, the MFA vehicle factory of Beijing Benz was established and went into production, while Engine Factory 2 was constructed in an orderly manner. As a result, the vehicle and engine production capacity was further expanded. Meanwhile, Beijing Benz actively developed the new momentum and steadily promoted the new energy strategy. The new premium vehicle production base and the power battery factory were constructed smoothly. The first Mercedes-Benz pure electric vehicle product was planned to be launched in 2019, and Beijing Benz will become an important production base of pure electric vehicles of Daimler AG in China.

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

3. *Beijing Hyundai*

In 2018, Beijing Hyundai actively carried out adjustment, with efforts for new vehicle models and marketing improvement, and sold a total of 790 thousand units, representing a year-on-year increase of 0.7%. Against the backdrop of an overall decline in the industry, Beijing Hyundai saw an increase in the sales volume, regaining its status as a mainstream vehicle enterprise, and boasting over ten million users.

In 2018, driven by the new service brand philosophy of "Enjoying Considerate Services (享你未想)" and "Quality and Intelligent (質現代 • 智未來)", Beijing Hyundai proactively followed the industry development trend and the customers' consumption habits, focused on products and services, and emphasized on the creation of "3 series + 3 technologies" matrix product layout which consisted of the basic car series, performance car series and new energy car series, as well as the electric drive technology, intelligent technology and networking technology.

In 2018, Beijing Hyundai improved the brand image through launching ENCINO and LA FESTA (both of which are performance cars); meanwhile, it had EV, HEV and PHEV new energy series of products; the TMED hybrid power system incorporated into the new Sonata plug-in hybrid vehicle model was on the "Ward's 10 Best Engines"[3] list, which reflected its powerful technical strength.

4. *Fujian Benz*

Fujian Benz maintained a strong development trend, with the sales volume of 29 thousand units in 2018, representing a year-on-year increase of 27.3%. Mercedes-Benz V-Class, New Vito and other vehicle models were widely recognized in the market, with the sales volumes growing at a rate much larger than those 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 2018, the Group transferred the production base of Beijing Branch and other certain 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. Meanwhile, such base will produce new energy electric vehicle models. Currently, such base has been established and constructed in an orderly manner.

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3 "Ward's 10 Best Engines", also known as the world's 10 best engines, is a list released by Ward's Auto World, a U.S. authoritative magazine, as well as the most influential engine award

In 2018, the MFA factory of Beijing Benz was established and went into production in full; the power battery factory project was implemented in an orderly manner; as a result, the arrangement in the industry was further perfected, which laid a foundation for subsequent development in the new energy field.

Beijing Hyundai has formed the operational arrangement of "Five Factories in Three Regions", with the production and marketing system approaching perfection.

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.

In 2018, Beijing Brand strengthened efforts in widening penetration of the sales network and the development of satellite stores, and was committed to increasing the coverage of business districts; Beijing Hyundai improved the hardware conditions of channels and actively maintained the sound development of the network system through assistance and rectification, based on maintaining the stability of existing channels; Beijing Benz continuously promoted the distributor network improvement project, and together with distributors, facilitated the upgrade of the hardware and software for network operations to meet challenges from new models in the future, while focusing on the operational ability and the profitability of the channels in the network.

Research and development

The Group believes that our research and development capability is critical to the future development. During 2018, our various brands all vigorously boosted construction of research and development system and capacity.

The Beijing Brand achieved results in terms of innovation of research and development management, and new vehicle model research and development. Senova Zhixing, the new SUV, and Senova Zhidao, the new mid- to high-end sedan, which were produced on the M-trix2.0 platform, reflected the research and development progress of the Senova brand in terms of styling, perceived quality, intelligentization, networking and other aspects; the Senova brand made significant progress in electrification, with industry-leading new energy vehicle models including EX5 and EU5 as main products developed in 2018; meanwhile, the Senova brand developed the strategic cooperation agreements with Xiaomi, Baidu, IFLYTEK, Bosch and other intelligence technology companies, so as to comprehensively promote the 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 2018, Beijing Hyundai installed on 8 new and facelifted vehicle models, an intelligent networking system and various active safety systems based on the Baidu platform, so as to create the intelligent networking vehicle model series of Beijing Hyundai. In terms of new energy vehicle models, it successfully put Sonata 9 plug-in hybrid vehicle model on the market and promoted the development of ENCINO pure electric SUV, LA FESTA pure electric sedan and Elantra plug-in hybrid vehicle models, so as to create a perfect new energy vehicle model series of Beijing Hyundai.

Joint venture cooperation and industrial chain extension

During 2018, the Group made a breakthrough in capital operation and industry cooperation, with further broadening of the scope of cooperation, extension of the industrial chain, expansion of the business market and enhancement of its competitiveness.

1. Strategic investment in BAIC BluePark

On January 22, 2018, BAIC Guangzhou Automotive Co., Ltd. ("**BAIC Guangzhou**"), BAIC Group, Daimler Greater China, Bohai Automotive Systems Co., Ltd. ("**Bohai Automotive**"), Beijing Shougang Lvjie Venture Capital Co., Ltd. ("**Shougang Lvjie**") and other shareholders of Beijing Electric Vehicle Co., Ltd. ("**BJEV**") 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 of 8.15% equity interest in BJEV to QianFeng in exchange for new A shares to be issued to BAIC Guangzhou by QianFeng. Upon completion of the transaction, BAIC Guangzhou would hold 6.51% equity interest in QianFeng.

On August 8, 2018, at the twenty-ninth meeting of the eighth session of the board of directors of QianFeng, it was resolved to change the Chinese name of QianFeng to "BAIC BluePark New Energy Technology Co., Ltd." ("**BAIC BluePark**").

On September 27, 2018, trading in shares of BAIC BluePark on the Shanghai Stock Exchange was resumed.

2. Increase in the scale of production of premium passenger vehicles of Beijing Benz

On February 23, 2018, the Company and Beijing Benz signed the Asset Transfer Agreement, pursuant to which the Company transferred to Beijing Benz the production base located in Shunyi District, Beijing of Beijing Branch of the Company. Immediately after that, the Company announced that it would, together with Daimler AG, invest over RMB11.9 billion to build 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.

3. *Capital contribution to MBLC*

The Company and Daimler Greater China entered into the Capital Increase Agreement on April 25, 2018, pursuant to which both parties shall contribute an aggregate amount of RMB1,500 million to MBLC in proportion to their respective shareholding in MBLC. Of which, the Company will contribute RMB525 million, representing 35.0% equity interest upon completion of capital increase.

Driven by, amongst others, successful development of automobiles under the brand of Mercedes-Benz in China, 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 China's automobile leasing and automobile financial market. It is expected that the contribution will facilitate the sales of new cars of Beijing Benz, further promote development of the Company in China's automobile finance lease market, and increase the contribution of the finance lease business to the overall yield of the Company, thus generating greater investment returns for the Company and its shareholders.

4. *Establishment of BH Leasing*

On December 29, 2018, the Company, Hyundai Capital and Hyundai Motor Group (China) Ltd. ("**Hyundai China**") signed the Joint Venture and Capital Contribution Agreement of BH Leasing Co., Ltd. and will cooperate in the automobile leasing and finance lease field. The registered capital of BH Leasing Co., Ltd. ("**BH Leasing**") was RMB0.3 billion, which was owned as to 50%, 40% and 10% by the Company, Hyundai Capital and Hyundai China, respectively.

5. *Transfer of assets to the Off-road Vehicle Branch of BAIC Group*

On October 30, 2018, Beijing Branch of the Company and the Off-road Vehicle Branch (currently known as "BAIC Group Off-road Vehicle Co., Ltd.") of BAIC Group, the sole controlling shareholder of the Company, entered into the Asset Transfer Agreement, pursuant to which Beijing Branch of the Company agreed to dispose of, and the Off-road Vehicle Branch of BAIC Group agreed to purchase, the assets to be transferred by Beijing Branch of the Company at a consideration of approximately RMB85.2 million.

6. *Disposal of assets to Changhe Automotive*

In 2018, the Company had continuously promoted the asset integration of Wevan business. On December 29, 2018, the Company, Zhuzhou (BAIC) Motor Sales Limited Company ("**Zhuzhou Sales**"), a wholly-owned subsidiary of the Company, and Jiangxi Changhe Automotive Co., Ltd. ("**Changhe Automotive**") entered into the Asset Transfer Agreement, pursuant to which the Company and Zhuzhou Sales agreed to dispose of, and Changhe Automotive agreed to purchase, the target assets at a consideration of approximately RMB531.7 million.

The target assets included fixed assets, production equipment, projects under construction, development expenses, intangible assets and other assets held by Huanghua Branch, Wevan Business Unit, Zhuzhou Branch of the Company and Zhuzhou Sales.

With gradual exit of the Wevan business, the Company has set out a clear strategic positioning of focusing the limited resources on the mid- to high-end passenger vehicle business, which will improve the financial condition and profitability of the Company and will be beneficial to a sustainable development of the Company.

PERFORMANCE ANALYSIS AND DISCUSSION

Revenue and net profit attributable to equity holders of the Company

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. The revenue of the Group increased from RMB134,158.5 million for the year ended December 31, 2017 (the "**2017**") to RMB151,920.4 million in 2018, representing a year-on-year increase of 13.2%, mainly attributable to the increase in revenue from Beijing Benz.

Revenue associated with Beijing Benz increased from RMB116,772.9 million in 2017 to RMB135,415.2 million in 2018, representing a year-on-year increase of 16.0%, mainly attributable to (i) a year-on-year increase of 14.8% in sales volume of Beijing Benz; and (ii) the further increase in the proportion of sales volume of models with relatively higher selling prices.

Revenue associated with Beijing Brand decreased from RMB17,385.6 million in 2017 to RMB16,505.2 million in 2018, representing a year-on-year decrease of 5.1%, mainly attributable to (i) a year-on-year decrease 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, the adjustment of preferential policy for vehicle purchase tax and the decrease in the new energy subsidies policy; and (iii) the product structure adjustment with an increase in the proportion of the sales volume of vehicle models with relatively higher selling price, leading to the decrease in the revenue per vehicle less than the sales volume decrease.

The Group's net profit attributable to equity holders of the Company increased from RMB2,252.8 million in 2017 to RMB4,429.5 million in 2018, representing a year-on-year increase of 96.6%; the basic earnings per share increase from RMB0.30 in 2017 to RMB0.55 in 2018, representing a year-on-year increase of 83.3%.

Gross profit

The Group's gross profit increased from RMB35,499.3 million in 2017 to RMB37,006.6 million in 2018, representing a year-on-year increase of 4.2%, mainly attributable to the increase in the gross profit of Beijing Benz.

The gross profit of Beijing Benz increased from RMB38,179.0 million in 2017 to RMB40,522.9 million in 2018, representing a year-on-year increase of 6.1%; the gross profit margin decreased from 32.7% in 2017 to 29.9% in 2018, mainly due to the re-classification of part of the transportation expense from the selling and distribution expenses to the cost of sales according to the new revenue standard.

The gross profit of Beijing Brand decreased from RMB-2,679.7 million in 2017 to RMB-3,516.2 million in 2018, mainly attributable to (i) a year-on-year decrease 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, the adjustment of preferential policy for vehicle purchase tax and the decrease in the new energy subsidies policy; (iii) the impact of the strategic adjustment for the Wevan business; and (iv) the re-classification of part of the transportation expense from the selling and distribution expenses to the cost of sales according to the new revenue standard.

Working capital and financial resources

The Group usually satisfied its daily working capital requirements through self-owned cash and borrowings. The Group's net cash generated from operating activities increased from RMB19,502.8 million in 2017 to RMB21,733.4 million in 2018, representing a year-on-year increase of 11.4%, mainly attributable to an increase in the net cash generated from operating activities of Beijing Benz.

As at December 31, 2018 (the "**end of 2018**"), the Group had cash and cash equivalents of RMB35,389.9 million, notes receivable of RMB4,321.8 million, notes payable of RMB8,886.7 million, outstanding borrowings of RMB23,863.2 million, unused bank credit lines of RMB23,718.8 million, and commitments for capital expenditure of RMB10,540.9 million. The above outstanding borrowings included RMB1,982.8 million equivalents of Euro borrowings as at the end of 2018.

Capital structure

The Group maintained a reasonable combination of equity and liability to ensure an effective capital structure.

The Group's asset-liability ratio (total liabilities/total assets) decreased from 64.4% on December 31, 2017 (the "**end of 2017**") to 59.8% at the end of 2018, representing a year-on-year decrease of 4.6 percentage points, mainly due to (i) an increase in the assets of Beijing Benz; and (ii) a decrease in the liabilities of Beijing Brand.

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 from -9.5% at the end of 2017 to -20.0% at the end of 2018, representing a year-on-year decrease of 10.5 percentage points, mainly attributable to (i) a decrease in the total borrowings; and (ii) the extent of decrease in the total borrowings exceeding the extent of decrease in cash and cash equivalents.

As at the end of 2018, the total outstanding borrowings was RMB23,863.2 million, including short term borrowings of RMB8,956.0 million in aggregate and long-term borrowings of RMB14,907.3 million in aggregate. The Group will promptly repay the aforesaid borrowings at maturity.

As at the end of 2018, 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.

Significant investments

Total capital expenditures of the Group decreased from RMB8,739.5 million in 2017 to RMB6,414.1 million in 2018, representing a year-on-year decrease of 26.6%. Among which, capital expenditures of Beijing Benz increased from RMB5,604.4 million in 2017 to RMB10,644.0 million in 2018, which included the consideration for the acquisition of the transferred assets of Beijing Branch of the Company by Beijing Benz. Capital expenditures of Beijing Brand decreased from RMB3,135.0 million in 2017 to RMB968.3 million in 2018, mainly due to the fact that the investment in capacity is drawing to an end.

Total research and development expenses of the Group decreased from RMB2,788.3 million in 2017 to RMB2,402.9 million in 2018, representing a year-on-year decrease of 13.8%, the majority of which were incurred by the Group for its product research and development activities expenses. Based on accounting standards and the Group's accounting policy, expenses of the aforesaid research and development complied with capitalization conditions and had been capitalized accordingly.

Material acquisitions and disposals

On January 22, 2018, BAIC Guangzhou, BAIC Group, Daimler Greater China, Bohai Automotive, Shougang Lvjie and other shareholders of BJEV entered into the Agreement on Asset Swap and Acquisition of Assets by Issuance of Shares with QianFeng, pursuant to which BAIC Guangzhou agreed to dispose of 8.15% equity interest in BJEV to QianFeng in exchange for new A shares to be issued to BAIC Guangzhou by QianFeng. Upon completion of the transaction, BAIC Guangzhou will hold 6.51% equity interest in QianFeng.

On February 23, 2018, the Company and Beijing Benz signed the Asset Transfer Agreement, pursuant to which the Company agreed to dispose of, and Beijing Benz agreed to acquire the assets to be transferred by Beijing Branch of the Company, at a consideration of approximately RMB5,837 million.

On April 25, 2018, the Company and Daimler Greater China entered into the Capital Increase agreement, pursuant to which the Company and Daimler Greater China shall contribute an aggregate of RMB1.5 billion to MBLC in proportion to their respective shareholding in MBLC, among which the Company shall contribute RMB525 million. Upon completion of the capital increase, the Company continues to hold 35.0% equity interest in MBLC.

On October 30, 2018, Beijing Branch of the Company and the Off-road Vehicle Branch (currently known as "BAIC Group Off-road Vehicle Co., Ltd.") of BAIC Group, the sole controlling shareholder of the Company, entered into the Asset Transfer Agreement, pursuant to which Beijing Branch of the Company agreed to dispose of, and the Off-road Vehicle Branch of BAIC Group agreed to purchase the assets to be transferred by Beijing Branch of the Company, at a consideration of approximately RMB85.2 million.

On December 29, 2018, the Company, Zhuzhou Sales, a wholly-owned subsidiary of the Company, and Changhe Automotive entered into the Asset Transfer Agreement, pursuant to which the Company and Zhuzhou Sales agreed to dispose of, and Changhe Automotive agreed to purchase the target assets to be disposed of by the Company and Zhuzhou Sales, at a consideration of approximately RMB531.7 million.

For details of the aforesaid cooperation matters, please refer to relevant announcements of the Company dated January 22, 2018, February 23, 2018, April 25, 2018, October 30, 2018 and December 29, 2018, respectively.

Foreign exchange losses[4]

The Group's foreign exchange loss (mainly from the businesses of Beijing Benz) decreased from RMB1,366.0 million in 2017 to RMB685.5 million in 2018, mainly due to (i) the effective control on the foreign exchange rate risks due to the judgment in foreign exchange forward contracts; and (ii) the decrease in exchange losses from Euro-denominated payments as a result of the rise in the exchange rate of RMB against Euro.

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

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.

Employee and remuneration policies

The Group's staff decreased from 22,844 at the end of 2017 to 20,431 at the end of 2018. The staff costs incurred by the Group decreased from RMB5,232.2 million in 2017 to RMB5,087.6 million in 2018, representing a year-on-year decrease of 2.8%, mainly due to (i) the further improvement in the production and management efficiency and the decrease in the number of employees; and (ii) the influence of the decrease in the number of employees, partially offset by the increase in the average staff cost resulting from, among others, the longer labor hours and the increase in the annual average wage in the society.

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 an enterprise annuity system to provide the qualified and voluntary employees with the supplementary pension plan with certain guarantee on retirement income.

Pledge of assets

As at the end of 2018, the Group had pledged notes receivable of RMB2,786.0 million.

Contingent liabilities

As at the end of 2018, the Group had no material contingent liabilities.

4 Foreign exchange losses include foreign exchange forward contracts at fair value through profit or loss

Risk factors

1. *Risks relating to macro-economic volatility*

Macro-economic performance will have significant impact on consumer demands for automobiles, and therefore will affect the Group's operating performance. In 2018, China saw an annual GDP growth of 6.6%[5], with downward pressure on the economy. If China's economic growth continues to slow down, the buyer power of residents will be affected, leading to a decrease in the customer demand for the Group's products, thus adversely affecting the Group's financial position, results of operations and prospects. The Group will continuously pay attention to China's macroeconomic situation, and take measures in due course to respond to fluctuations in the economic environment.

2. *Risk of increased market competition*

The Group operates in a highly competitive industry with fierce market competition. According to the statistics of CAAM, the sales volume of passenger vehicles in China in 2018 was 23.71 million units, representing a year-on-year decrease of 4.1%, which has been the first year-on-year decrease in recent years, and domestic control policies were more unfavourable to the private economy, which affected the demands of the major group in the vehicle market for vehicles. Meanwhile, enterprises in the industry continuously improve their core competitiveness through the increase in research and development investment, industry integration and otherwise, and comprehensively compete on product, price, marketing, quality, cost and otherwise, thus the market competition increases. If the Group fails to take appropriate measures to maintain and improve its market position, its future results of operations will be adversely affected. The Group will continuously pay attention to the market conditions and take measures in due course to maintain and improve its market position.

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

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 prices, 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.

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5 As announced by the National Bureau of Statistics, the growth rate of the national GDP in 2018 amounted to 6.6%

5. ***Risks relating to adjustment to the purchase tax relief policy for passenger vehicles***

In December 2016, the Ministry of Finance adjusted 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 the negative impact of change in the subsidy policies for new energy, 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 2019

Prospect for the development of passenger vehicle industry in 2019

According to the prediction of the State Information Center: In 2019, internal and external economic environment will be complicated, severe and uncertain, and it is expected that the GDP growth will remain at 6.3%. In terms of the passenger vehicle industry, affected by the law of industry development, the macro-economic situation, industry policies and market factors, it is expected by CAAM that in 2019, the sales volume of passenger vehicles for the year will be 23.7 million units, which is generally equal to that in 2018, and the overall market will remain at a low level, while the integration between enterprises will be intensified.

In addition, the State Information Center and relevant authorities consider that the main trend of the macro economy and the development of the automobile industry in 2019 will be as follows:

1. ***Long-term potential decline in the growth rate***

In 2019, in China, the passenger vehicle ownership per 1,000 people will continue to increase and is expected to exceed 150, and the market will be at the late stage of popularization of cars; the number of cars owned by car buyers aged between 25 and 55 (the main group) has reached a relatively high level. Therefore, the potential growth rate of the passenger vehicle market in the future will further decline.

2. ***Unabated downward pressure on the macro economy***

Due to the influence of internal and external factors, it is expected that "countercyclical adjustment" will be the general keynote of all macro policies in 2019, and the problem of economic structure difference will be alleviated to some extent. Enterprise and consumer confidence are expected to be stable, and the support of the macro environment for the vehicle market is expected to be improved.

3. ***Industrial policies' focus on structural adjustment***

It is expected that in 2019, stimulus measures for automobile consumption will focus on four aspects, namely reasonable consumption, green consumption, trading-up and rural consumption. Subsidy policies for new energy will continue to promote the development of the industry for a more high-energy density and higher mileage range; hydrogen as energy source and other new technical routes are expected to be supported by policies, which will facilitate continuous upgrade of the industrial structure.

4. ***In-depth cooperation and interaction among vehicle enterprises***

Market competition, technology iteration and upgrade will promote the in-depth cooperation among major vehicle enterprises; further development of networking and intelligentization will promote the in-depth integration of internet, artificial intelligence, driverless technology and other industry-leading enterprises with traditional OEM; the industry cooperation based on car financing, finance lease and other aftermarket fields will take place continuously, which will bring about new sources of growth for the industry.

Operational strategy of the Group for 2019

Overall operational strategy

Facing opportunities and challenges in 2019, the Group will focus on the high-quality development, comprehensively improve the product strength and the brand strength of Beijing Brand, and continuously deepen the joint venture cooperation. It has developed the strategy of differentiated operations for business segments.

Operational strategy of Beijing Brand

In 2019, 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.

Focus on two ends

It refers to: closely focusing on electrification and intelligent networking, guidance by customer demands, being oriented towards the implementation of new technologies, and realizing the independent development of products to overcome difficulties; allocating resources for actions in the early stage, reinforcing the terminal market power, and achieving a breakthrough in public praise, sales ability and other key fields, through the channel model reform and a series of new measures.

Improvement in three strengths

It refers to: building a bridge between research and development and marketing, and between the products and the market, and promoting the coordinated improvement in the brand strength, the product strength and the marketing strength, with brands as the core and through rationalizing the relationship and reshaping the system.

Operational strategy of Beijing Benz

In 2019, Beijing Benz will continue to further promote the implementation of the "achieving excellence in 2020" strategy, and proactively take actions to comprehensively build a "digitalized, flexible and green" intelligent factory, so as to reinforce competitive advantages in the industry and continue to lead the rapid development of domestic premium vehicles.

Operational strategy of Beijing Hyundai

In 2019, Beijing Hyundai will comprehensively promote internal system reforms, take efforts in four important aspects including sales system reinforcement, brand image improvement, cost structure optimization and vitality stimulation, and launch various new vehicle models with intelligent networking technologies; meanwhile, it will develop and launch new energy vehicles, using the leading new energy technologies of Hyundai Motor.

Operational strategy of Fujian Benz

In 2019, Fujian Benz will continuously carry out innovation and sustainable development and make efforts to realize the goal of "becoming the respectable leader in traveling solutions in the new era".

SUBSEQUENT EVENT

On January 29, 2019, the Company issued 2019 first tranche of ultra short-term commercial paper in an amount of RMB1,500.0 million with the term of 270 days and the annual coupon rate of 3.25%.

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 were approximately RMB8,523.8 million.

In 2018, the Company's usage of the proceeds from the initial public offering is consistent with those as set forth in the chapter headed "Future Plans and Use of Proceeds" in the Prospectus.

PLACING OF H SHARES

In order to continuously improve the product structure and the profitability to better reward the shareholders, on April 25, 2018, the Company and the placing agent entered into a placing agreement with regard to placing of H shares of the Company, pursuant to which, the placing agent shall place a total of 420,000,000 new H shares of the Company at a price of HK$7.89 per H share (the "**Placing**").

The aggregate nominal value of the aforementioned H shares under the Placing was RMB420,000,000, and the net proceeds (after deducting all applicable costs and expenses, including commission and professional fee) were approximately HK$3,266.3 million. According to the announcement of the Company dated April 25, 2018 (the "**Placing Announcement**"), the placing proceeds were intended to be used for general corporate purposes including replenishment of the working capital of the Company. The Placing was completed on May 3, 2018.

The placees for the Placing were 33 institutional investors. So far as is known to the Directors, none of the placees became substantial Shareholders of the Company immediately following completion of the Placing.

As at the end of 2018, all of the net proceeds were utilized. The net proceeds were used for the proposed purposes set out in the Placing Announcement.

The following table sets out the actual use of the net proceeds as of the end of 2018:

	Amount actually used as of December 31, 2018 (HK$ million)
Purchase of raw materials for production	2,240.7
Management expenses for daily operations	967.4
Other general operation and development purposes	58.2
Total	**3,266.3**

PROFIT DISTRIBUTION

In accordance with the provisions of Article 193 of the Articles of Association of BAIC Motor Corporation Limited, distributable profits will be determined based on either the Chinese Accounting Standards for Business Enterprises or the International Financial Reporting Standards (the "**IFRS**"), whichever is lower.

The Board proposed that the Company distributes an annual dividend for the year 2018 of RMB0.19 per share (tax inclusive). In case of any change in the total share capital of the Company due to the issue of additional shares, placing and buy-back of shares and otherwise, the Company will, according to the actual conditions upon completion of the aforesaid work and the total share capital upon the completion of the issue of additional shares, placing and buy-back of shares and otherwise, adjust the total amount to be actually distributed, subject to the consideration and approval of the 2018 profit distribution plan at the general meeting of the Company and an unchanged cash dividend of RMB0.19 per share. The proposal will be submitted to the Company's 2018 annual general meeting (the "**2018 Annual General Meeting**") for consideration and approval. The expected date of distribution will be no later than September 13, 2019.

For the details of the distribution of annual dividends by the Company, please refer to the circular for the 2018 Annual General Meeting to be despatched by the Company in due course.

MATERIAL LITIGATION AND ARBITRATION

As at the end of 2018, the Company was not involved in any material litigation or arbitration. The directors of the Company (the "**Directors**") were also not aware of any material litigations or claims which were pending or had material adverse effect to the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, dispose of or redeem any of the Company's listed securities in 2018.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

In 2018, the Company has complied with the Code provisions of the Code on Corporate Governance (the "**Code on Corporate Governance**") as set forth in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Save as disclosed above, the Directors of the Company as a whole believe that in 2018, the Company had complied with all the code provisions under the Code on Corporate Governance.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

Having made all enquiries to all Directors and supervisors of the Company ("**Supervisors**"), the Board confirms that, in 2018, the Directors and Supervisors 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 Supervisors.

AUDIT COMMITTEE

The audit committee of the Board has reviewed the Company's 2018 annual results and audited consolidated financial statements as at December 31, 2018 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 2018 Annual General Meeting, the book closure date of H shares, the record date for payment of dividends, and the date of the 2018 Annual General Meeting, please refer to the circular for the 2018 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 the 2018 annual report of the Company containing all the information required by the Listing Rules, which will also be published on the websites of the Company and the Stock Exchange.

By order of the Board
BAIC Motor Corporation Limited
Xu Heyi
Chairman

Beijing, the PRC, March 27, 2019

As at the date of this announcement, the Board comprises Mr. Xu Heyi, as Chairman of the Board and non-executive director; Ms. Shang Yuanxian and Mr. Yan Xiaolei, as non-executive directors; Mr. Chen Hongliang, as executive director; Mr. Xie Wei, Mr. Qiu Yinfu, Mr. Hubertus Troska, Mr. Bodo Uebber, Ms. Jiao Ruifang and Mr. Lei Hai, 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*